Fiscal Year 2013
Budget Recommendations

As of May 7, 2012

Prepared by

University Planning and Budget Committee

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GALLAUDET
UNIVERSITY

OFFICE OF THE PRESIDENT

May 7, 2012

MEMORANDUM

TO: Gallaudet University Board of Trustees

FROM: T. Alan Hurwitz, President

SUBJECT: Gallaudet University Planning and Budget Committee Fiscal Year 2013 Budget Recommendations

Attached is the Gallaudet University Planning and Budget Committee's (UPBC) Fiscal Year (FY) 2013 Budget proposal. The proposal reflects the results of a University-wide budget process facilitated by the UPBC. The UPBC recommends an FY 2013 operating budget of $171.7 million, including a capital budget up to $13.1 million exclusive of borrowed funds and federal funds that may be appropriated for construction of a residence hall at the Laurent Clerc Center (Clerc Center). This budget reflects a $1.7 million or 1 percent decrease compared to the FY 2012 operating budget. The decrease in revenue is primarily attributed to the closure of video relay services and less income from investments due to fluctuations in the market. The UPBC proposed operating expense budget proposes trade-offs that allow for a balanced budget, including a $2 million contingency fund, funding a $2.8 million increase in depreciation primarily attributable to the coming on-line of our new living and learning residence hall, and the $2.064 million new expense for debt service because of the $40 million we borrowed. Included in the UPBC budget proposal is a recommendation to allocate $1 million to support awarding an increase to employees' base pay based on meritorious performance. However, because Clerc Center teachers do not have an existing merit system, and because their current salary ranges lags behind their comparator group, the Committee recommended a portion of the $1 million allocated for employees' pay increase be set aside to improve the competitiveness of Clerc Center teachers' salaries. A consolidated list of recommendations is found on page 44.

I have, in consultation with the Cabinet and the Budget Oversight Group, reviewed the UPBC recommendations, and make the following revisions to their recommendations—

- Allow me the discretion, precisely as you did last year, to award either a lump sum increase to employees in the range of 0 to 3 percent, or an increase to their base pay in some combination of general pay and/or merit increase in the range of 0 to 3 percent; and
- The Board of Trustees approve an 8 percent tuition increase, an amount that falls within the recommended UPBC range of 6 to 8 percent.

Finally, I would like to acknowledge the extraordinary work of the Committee under the leadership of Deb Lipkey and Patricia Hulsebosch. The Committee has done a wonderful job that pulls together an enormous amount of knowledge about the University into a coherent presentation regarding the budget that, with the adjustments described above, has earned my full support.

Attachment: As stated

cc: President's Cabinet
Gallaudet University Planning and Budget Committee

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Prepared by

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Table of Contents

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Executive Summary

The University Planning and Budget Committee (UPBC) recommends a fiscal year (FY) 2013 operating budget of $171.7 million, a one percent decrease compared to FY 2012.

In recent years, the University has been adjusting its approach to budgeting to integrate planning, budgeting, and assessment. In November 2011, President Hurwitz announced that he was expanding the role of the University Budget Committee to include those functions. The newly established Committee began its work in January 2012. This proposal represents the first product prepared by the UPBC. The Committee believes that using a thoughtful and rational process of self-examination and planning will enable the University to meet its purposes while supporting the opportunity for change and renewal.

One tool, considered a 'best practice' in higher education, that is helpful for boards and senior administrators to understand the financial position of their institutions in the marketplace, and to assess the affordability of a strategic plan is a unique financial metric, the composite financial index (CFI). The UPBC is introducing the CFI to the Gallaudet community as a metric for senior administrators to follow. The CFI will provide insights into the institution's relative financial health, and its ability to carry out the Gallaudet Strategic Plan (GSP) and the Clerc Center Strategic Plan (CCSP). CFI scores can provide an indication of the range of financial health. For instance, a score of one may suggest considering substantive programmatic adjustments, while a score of eight may suggest deploying resources to achieve a robust mission. While the CFI scores should be reviewed across several years, Gallaudet's CFI scores for the past two years could be interpreted to suggest that it continue making substantive programmatic changes. Gallaudet is on course to continue with deliberate programmatic change that will advance the GSP and the CCSP.

In formulating the FY 2013 budget, the Committee follows eight guiding principles. Guiding principle number seven resonated with the Committee as members considered strategies to present a balanced budget that continues to support advancement of the GSP and the CCSP. Guiding principle number seven says, "*Address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to accomplish our mission.*" The Committee recognized the immediate need to balance the budget, budget for a contingency fund/operating surplus, fund the rising cost of depreciation, and fund the new expense category of debt service. Yet, this must be achieved while positioning the University to continue moving forward on the GSP and CCSP.

In recent years, the institution has undertaken several initiatives to invest in its future. In accordance with GSP Goal D that states, *". . . refine a core set of undergraduate and graduate programs that are aligned with the institutional mission and vision, leverage Gallaudet's many strengths, and best position students for career success"* Gallaudet completed a systematic prioritization of academic and non-academic programs. To assure resources are allocated to our highest priorities, the University asked the Program Prioritization Task Force (PPTF) and the Administrative Programs and Services Review Committee (APSRC) to prioritize existing programs. These efforts have led to reallocation of resources in alignment with the GSP and the CCSP.

Additionally, the President has encouraged innovation and creative thinking. At his 'Welcome Back' address in September 2011, President Hurwitz addressed the campus community, asking—

- What will we accomplish?
- What innovations will we bring to the University?
- How will we ensure the University will thrive in the future?

He encouraged the community to propose what we can do, what we can create and what our future students will find here. Since Fall 2011, the University faculty has implemented, or is implementing, additions to Gallaudet's undergraduate curriculum to create new pathways for students. Specifically, the University is designing, or has designed, pathways within its undergraduate curriculum that will build on what we offer in the Liberal Arts, such as preparing students for medical school, law school, architecture school, or pursuit of a Master of Business Administration (MBA). Additionally, the University Faculty has proposed new degree programs, such as a Masters in Public Administration, and a Certificate in Early Childhood Education ASL/English Bilingual Education.

Similarly, in accordance with the GSP, the institution is investing in upgrading the campus. GSP Goal B calls for increasing Gallaudet's graduation rate to 50 percent, and creating an environment and support systems to encourage retention and successful completion. To this end, the institution embarked on acquiring funds through tax-exempt bonds to fund the construction of the new Living Learning Residence Hall. The new residence hall incorporates the concept of 'Deaf Space' and provides students with a dynamic environment to 'live' and 'learn.' Construction of the new dormitory also supports Goal C, *". . . secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations."* When completed, the new residence hall will increase the number of beds and expand Gallaudet's current housing revenue stream. Furthermore, Gallaudet is preparing the 2022 Campus Plan (2022 Plan), an update to our existing 2012 Facilities Master Plan (2012 Plan). The 2022 Plan will build upon, and adjust, the goals and concepts of the 2012 Plan to reflect the priorities set by the GSP and respond to the changes taking place in the surrounding community through an inclusive and data driven process. One example is the planned improvements on 6th street that are intended to build connections with our surrounding community as well as partnerships that may lead to future revenue streams such as retail leases.

This period of renewal and reinvention is an exciting time, yet it presents the challenge of directing resources appropriately to take us into the future. The FY 2013 budget formulation process required the University to address some expected, and some unexpected, changes in revenue streams and expenses. The University anticipated that federal funding for operations would remain at the FY 2009 level through FY 2013, and that investment income would continue to reflect the volatile investment market in recent years. However, due to U.S. Federal Communication Commission's (FCC) regulatory changes, the University was essentially required to close its existing partnership to offer video relay services (VRS). Gallaudet's VRS operated as an auxiliary enterprise that yielded nearly a net $2 million toward the University's operating budget (e.g., net operating margin and other benefits such as employing Gallaudet students and 'purchasing' interpreting services from Gallaudet's Interpreting Services). Additionally, by following the GSP to improve the campus grounds and facilities, those investments translate into higher depreciation expenses. In addition, for the first time in its history, Gallaudet increased its liability for debt service, an expense that is expected to be covered by additional revenue collected from housing fees that will increase by 9 percent per year over the next 5 years. While these changes pose challenges, they represent the University's commitment to achieving the GSP and CCSP. The institution recognizes, that to achieve the GSP and CCSP, it must work through difficult decisions and difficult times. Because Gallaudet is a small institution, even small changes in operations, that would likely go un-noticed at a large institution, stand out and receive heightened attention within our community.

The table below summarizes the UPBC FY 2013 operating revenue budget by source of funds and operating expense budget by natural expense categories.

OPERATING BUDGET BY SOURCE OF FUNDS (dollars in thousands)				
Source of Revenue	**FY 2013 Proposed Budget**	**% of Total**	**FY 2012 Budget**	**% of Total**
Federal appropriation – Operations	$117,500	68%	$118,000	68%
Tuition and Fees	23,000		20,200	
Less: Scholarship Aid	(7,400)		(7,100)	
Net Tuition & Fees	15,600	9%	13,100	8%
Grants and Contracts	6,000	4%	7,000	4%
Investment Income- Operations	6,200	4%	6,700	4%
Auxiliary Enterprises	21,400	12%	23,600	14%
Contributions	3,000	2%	3,000	2%
Other	2,000	1%	2,000	1%
TOTAL	**$171,700**		**$173,400**	

OPERATING BUDGET BY NATURAL EXPENSE CATEGORIES (dollars in thousands)						
Natural Expense Category	FY 2013 Proposed Position Allocation	FY 2013 Proposed Budget	% of Total	FY 2012 Position Allocation	FY 2012 Budget	% of Total
Payroll (includes both centralized payroll and non-centralized payroll)*	964[1]	$106,900	62.3%	990[1]	$113,800	65.3%
Utilities		$6,900	4.0%		$8,400	4.8%
Depreciation		$13,100	7.6%		$10,300	5.9%
Debt Service		$2,064	1.2%		$0	0%
Professional Fees/Service Contracts		$17,800	10.4%		$16,700	9.6%
Consultants and Advisors		$5,400	3.1%		$5,900	3.4%
General Office Expenses		$5,000	2.9%		$5,300	3.0%
Furniture and Equipment		$2,000	1.2%		$2,200	1.3%
Travel and Transportation		$1,500	0.9%		$1,500	0.9%
Other non-payroll		$9,036	5.2%		$7,800	4.9%
Contingency		$2,000	1.2%		$1,500	0.9%
TOTAL	964	$171,700		990	$173,400	

Revenue Budget

Gallaudet's operating revenues are comprised of the federal appropriation, tuition and fees, grants and contracts, investment income for operations, auxiliary enterprises, contributions and a small amount from miscellaneous activities.

As a small institution, Gallaudet's budget is relatively more sensitive to what would be considered minor variations at a larger institution. Overall, the University is seeing a decrease in operating revenues due to—

- The heightened attention to federal spending resulting in the forecast of flat federal funding,
- The volatility of the financial market and the economic climate,
- The closure of video relay services, and
- A reduction in federal grant funding.

Assuming the federal appropriation remains flat, total operating revenues are expected to be down by almost one percent. Net tuition and fees revenue is expected to see an increase of 19 percent due to the 7 percent increase in tuition effective Fall 2012, a discount rate of 32 percent, and increased enrollment. Similarly, some auxiliary enterprises such as room and board are expected to increase. Fall 2012 will be the first semester to charge students the additional 9 percent room charge. However, the increases in those categories will be offset by—

- The loss of revenue from the closure of video relay services in the Fall 2011, and
- The volatility in the financial market that continues to impact proceeds from the endowment available for operations.

Contributions and revenue from other sources are expected to remain level in FY 2013.

Recommendation
The UPBC recommends establishing the operating budget for FY 2013 at $171.7 million. This is $1.7 million, or almost one percent, less than the FY 2012 budget. Per the Board of Trustees', and the administration's direction, the operating budget was prepared to yield an operating surplus. The planned surplus for FY 2013 is recommended as $2 million or 1.2 percent.

[1] *Note: In FY 2012, the position allocation was shown as 910. That number reflected only general fund, regular status positions. The Administration recommends that this should reflect all regular status positions including general fund (910), grant-funded positions (12), and income-supported positions (68). Income-supported positions primarily support auxiliary enterprise operations. Position counts presented here are based on April 2012 Position Control Report. Both years, FY 2013 recommended, and FY 2012 budgeted now reflect the total number of employees.*

Expense Budget

Given the forecasted one percent decline in operating revenues, the UPBC is proposing an expense budget that requires trade-offs in order to preserve the financial health of the institution, and continue to advance the GSP and CCSP. In other words, with one percent less funds, the University must still fund a $2.8 million increase in depreciation, and the new expense of $2.064 million for debt service. Compounding the challenge, the opportunity to identify trade-offs is limited by restrictions placed on certain funds (e.g., grants and restricted donations and endowment payout); and auxiliary enterprises must be funded at a level that will maximize its contributions to University operations. Consequently, the trade-offs must come from increasing revenue or by reducing division-controlled positions and non-centralized budgets. With payroll (centralized and non-centralized) representing 62 percent of the budget, the UPBC felt some of the trade-offs must be borne by the central payroll with the difference made up from division-controlled non-centralized funds. The UPBC recommends that the administration look to the GSP, the CCSP, the PPTF report, the APSRC report, and the Innovations Reporting Team (IRT) report for reference in determining the strategies for increasing revenue and reducing costs.

Recommendation
The UBC recommends Gallaudet's operating expense budget for FY 2013 be established at $171.7 million, including a contingency fund/planned surplus of $2 million. This represents a one percent decrease in the operating expense budget. This operating budget includes UPBC's recommendations to—

- *Increase the contingency/planned surplus by $500 thousand per year until it is greater than or equal to 2 percent of the University's total operating revenues beginning with FY 2013;*
- *Reduce the centralized payroll through careful consideration of filling each vacated position, specifically reducing the number of authorized positions by at least 26 (i.e., 2.6 percent of current authorized positions);*
- *Identify an additional $1.25 million through reductions to non-centralized non-payroll expense budget, excluding utilities, depreciation, and debt service;*
- *Reduce the utility budget by $1.5 million to reflect current agreed upon rates and forecasted consumption;*
- *Fund depreciation at $13.1 million, an increase of $2.8 million;*
- *Fund the new expense category of debt service at the required rate of $2.064 million; and*
- *Recognize the vital role of employees' in achieving the University's mission by acknowledging their continued commitment and contributions, through an increase to their base pay based on meritorious performance and that a portion of the funds set aside for employees pay be allocated to improving the competitiveness of Clerc Center teachers' pay.*

Proposed FY 2013 Capital Budget

FY 2013 Base Capital Improvement Plan
(dollars in thousands)

Description	Amount
Deferred maintenance projects	**$2,700**
Annual Allocations	**$1,500**
Capital improvement projects - renewal	**Up to $8,900**
Total	**$13,100**

Recommendation
Using the amount equal to the estimated FY 2013 depreciation expense of $13.1 million, the UPBC recommends allocating $2.7 million for deferred maintenance, $1.5 million for annual allocation categories, and up to the remaining $8.9 million for construction/major renovation. This includes allocating $500 thousand for residence hall furniture, $500 thousand for athletics capital improvements, and $500 thousand for a construction contingency fund. The remaining $8.9 million will remain available for major capital improvement and/or renovation projects to be allocated once the facilities master plan is approved.

As the University continues its work on the facilities master plan, more specific details will emerge to inform deliberations on specific capital improvement allocations in FY 2013.

Proposed Priorities for FY 2014 Request for Federal Funds

The Nation's attention continues to focus on reducing the federal deficit. Therefore, the UPBC carefully considered whether recommending a request for additional federal funds at this time is warranted. The Committee focused its discussion on two candidates it considers critical to fulfilling the CCSP and the GSP. First, the residence hall situation at the Clerc Center represents not only an undesirable situation for high school boys residing in a university residence hall, but, also a loss of beds available for university students. Second, our student body has experienced significant changes as exemplified by the number of deaf and hard-of-hearing students now attending Gallaudet as first-time signers. This type of change requires ever-expanding access services to provide appropriate support for all Gallaudet students.

> ***Recommendation***
> *The UPBC recommends that the University continue on-going activities to obtain the remaining $7 million in federal funds for already requested for completion of the MSSD residence hall.*
>
> ***Recommendation***
> *The UPBC recommends that the University continue on-going activities to obtain $3 million to support increased costs created by growing demand for communication access services.*

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Introduction

In recent years, the University has been adjusting its approach to budgeting to integrate planning, budgeting, and assessment. In November 2011, President Hurwitz announced that he was expanding the role of the University Budget Committee (UBC) to include planning, budget, and assessment. The newly established University Planning and Budget Committee (UPBC) began its work in January 2012. This proposal represents the first product prepared by the UPBC. In preparing its recommendations, the Committee was guided by its guiding principles summarized later in this proposal. One principle particularly relevant for the fiscal year (FY) 2013 budget that resonated with Committee members is that budget allocation recommendations will "*Address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to accomplish our mission*." The Committee recognized the immediate need to balance the budget, budget for a contingency fund/operating surplus, fund the rising cost of depreciation, and fund the new expense category of debt service. Yet, this must be achieved while positioning the University to continue moving forward on the Gallaudet Strategic Plan (GSP) and the Clerc Center Strategic Plan (CCSP).

In recent years, the institution has undertaken several initiatives to invest in its future. In accordance with GSP Goal D that states, *". . . refine a core set of undergraduate and graduate programs that are aligned with the institutional mission and vision, leverage Gallaudet's many strengths, and best position students for career success"* Gallaudet completed a systematic prioritization of academic and non-academic programs. To assure resources are allocated to our highest priorities, the University asked the Program Prioritization Task Force (PPTF) and the Administrative Programs and Services Review Committee (APSRC) to prioritize existing programs. These efforts have led to reallocation of resources in alignment with the GSP and the CCSP.

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Similarly, in accordance with the GSP, the institution is investing in upgrading the campus. GSP Goal B calls for increasing Gallaudet's graduation rate to 50 percent, and creating an environment and support systems to encourage retention and successful completion. To this end, the institution embarked on acquiring funds through tax-exempt bonds to fund the construction of the new Living Learning Residence Hall. The new residence hall incorporates the concept of 'Deaf Space' and provides students with a dynamic environment to 'live' and 'learn.' Construction of the new residence hall also supports Goal C, *". . . secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations."* When completed, the new residence hall will increase the number of beds and expand Gallaudet's current housing revenue stream. Furthermore, Gallaudet is preparing the 2022 Campus Plan (2022 Plan), an update to our existing 2012 Facilities Master Plan (2012 Plan). The 2022 Plan will build upon, and adjust, the goals and concepts of the 2012 Plan to reflect the priorities set by the GSP and respond to the changes taking place in the surrounding community through an inclusive and data driven process. One example is the planned improvements on 6^{th} street that are intended to build connections with our surrounding community as well as partnerships that may lead to future revenue streams such as retail leases.

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OBJECTIVE

As noted above, the University is adjusting its approach to budget to integrate planning, budgeting, and assessment. Using a thoughtful and rational process of self-examination and planning will enable the University to meet its purposes while supporting the opportunity for change and renewal. One approach that is considered a 'best practice' in higher education and that is helpful for boards and senior administrators to understand the financial position of their institutions in the marketplace, and to assess the affordability of a strategic plan is a unique financial metric, the composite financial index (CFI).

"*Salluzzo and Prager suggest an approach that can accomplish two objectives: improve the communication of financial strategies and bring discipline to strategic planning."* They recommend using the composite financial index, a financial tool that helps to answer the fundamental question, *"What is the overall level of financial health of the institution?"* They encourage business officers and other university decision makers to use the composite financial index for both assessment and long-range planning to facilitate continuous improvement.[2] Using a single financial metric for financial health offers a more holistic approach to understanding the total financial health of the institution.[3]

The CFI measure is prepared by addressing four specific areas the financial health of the institution—

1. Are resources sufficient and flexible enough to support the mission? – Primary Reserve Ratio
2. Are debt resources managed strategically to advance the mission? – Viability Ratio
3. Does asset performance and management support the strategic direction? – Return on Net Assets Ratio, and
4. Do operating results indicate the institution is living within available resources? – Net Operating Revenues Ratio

CFI scores can be interpreted to provide an indication of the range of financial health. Prager and Sealy caution institutions not to draw a conclusion based on one year's CFI. They remind us that a large number of variables impact an institution and influence the results on the ratios that comprise the CFI. Therefore, they recommend monitoring the institution's CFI over a period of time. They suggest a scale for interpreting the CFI as follows—

[2] *http://www.nacubo.org/documents/bom/2003_04_financial_health.pdf*

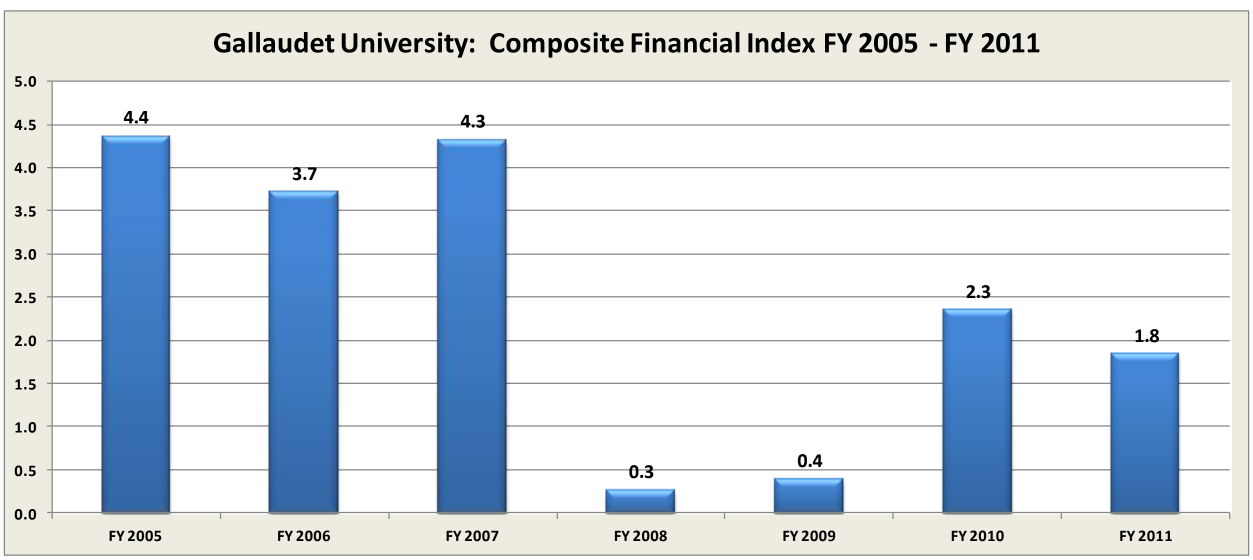
[3] *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks, 2010, Prager, Sealy & Co., LLC; KPMG LLP; and Attain LLC.*

SCORING SCALE

-4	-3	-2	-1	0	1	2	3	4	5	6	7	8	9	10
Consider whether financial exigency is appropriate														
	With likely large liquidity and debt compliance issues, consider structured programs to conserve cash													
		Assess debt and Department of Education compliance and remediation issues												
			Consider substantive programmatic adjustments											
					Re-engineer the institution									
						Direct institutional resources to allow transformation								
								Focus resources to compete in future state						
										Allow experimentation with new initiatives				
											Deploy resources to achieve a robust mission			

Source: Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks, 2010, Prager, Sealy & Co., LLC; KPMG LLP; and Attain LLC.

Gallaudet's CFI in recent years is illustrated below.



As Prager and Sealy noted, because of the large number of variables impacting an institution and influencing the results on the ratios that comprise the CFI, the University's ability to change the CFI is limited. There are variables that the University can have some control over, such as the Net Operating Revenues Ratio. Yet there are others, such as the Return on Net Assets Ratio that is greatly affected by the economy and financial market. Gallaudet's scores in FY 2008 and FY 2009 reflect the market decline and economic recession during that time. It is also important to note that prior to FY 2011, the University did not carry debt. Therefore, the ratios calculated in the years prior to FY 2011 exclude the viability ratio.

Using the Prager Sealy Scale for Charting Performance, Gallaudet's CFI over the last two years falls between 1 and 3. This represents significant improvement over FY 2008 and FY 2009. When applying the Scale, the Gallaudet FY 2010 and FY 2011 CFI could be interpreted to suggest that Gallaudet "Consider substantive programmatic adjustments," and/or "Re-engineer the institution."

It is within this framework, that Gallaudet continues to improve its planning and budgeting processes. The GSP and the CCSP provide the University with roadmaps that can guide us towards making substantive programmatic adjustments. While the University has made progress towards integrating planning, budget, and assessment by expanding the role of the former UBC and the completion of the program prioritization activities, more work remains to be done. The University must still establish—

- Routine and more robust planning and budgeting processes at all levels of the institution (e.g., at the organization level, dean/executive director, and division levels), and
- Monitoring activities that include routine data collection and reporting that will improve ownership and accountability at all levels.

The objective of the FY 2013 Gallaudet budget proposal is to recommend a budget that provides for—

- Strategically planning for operating results that, over time, will yield a Net Operating Revenues Ratio within the range of 2 to 4 percent,[4]
- Advancing the GSP and the CCSP,
- Shifting resources from programs and areas of lower priority to those with higher priority,
- Optimizing net tuition by maintaining a competitive pricing strategy (tuition rate and discount rate),
- Allowing for sufficient flexibility to allow for unforeseen expenses.

[4] *Prager and Sealy recommend "For Private institutions or public institutions that use a spending rate, the Net Operating Revenue Ratio target should be at least 2 – 4 percent over an extended time period, although the target will likely vary from year to year.*

FY 2013 Budget Formulation Process

Improving Planning, Budgeting, and Performance Management

Last May, the then titled University Budget Committee (UBC) recommended expanding its charge beyond formulating resource allocation recommendations to include planning and assessment. The UBC recommendation followed an APSRC recommendation that called for—

- A review of the strategic plan in its entirety,
- Assessing progress towards achieving the GSP to date,
- Coordination of future strategic planning efforts, and
- Strong, central leadership to allow for annual standardized data collection and reporting on programs and services relative to the strategic plan and operational efficiency.

On November 17, 2011, President Hurwitz announced that *"The responsibilities of the University's Budget Committee (UBC) are expanding to include planning, budgeting, and assessment."* The new University Planning and Budget Committee (UPBC) is made up of faculty, staff, and administrators from across the institution. President Hurwitz said, *"The UPBC will serve in an advisory role with respect to Gallaudet's planning, resource allocation, and assessment, and will monitor and facilitate these activities. The committee will advise the President on the implementation and evaluation of the University's budget, strategic plans, and institutional assessment."* The full charge of the UPBC is found in Appendix A of this document.

This FY 2013 budget proposal represents the first product prepared under the expanded UPBC. While the Committee began its work in January, a May deadline for submitting the FY 2013 budget did not afford adequate time to re-design this cycle's budget formulation process. Therefore, the FY 2013 budget formulation process remained generally the same as the process for FY 2012. However, the Committee has already begun to examine the University's planning process and will redesign the process for FY 2014. To begin, the Committee has adopted the following guiding principles:

Budget allocation recommendations will be:

1. Conducted in a deliberative, participatory, and transparent manner.
2. Balanced, recognizing the important role of academic and administrative support in promoting student success, faculty and staff productivity, and overall program quality.
3. Based on programmatic contributions to one or more of the five GSP Goals, the three CCSP goals, and associated strategies.
4. Recognize the need to support faculty, teachers, and staff, who are key to advancing the five GSP goals and the three CCSP goals.
5. Recognize the primacy of instruction and learning, and the creation and dissemination of new knowledge.
6. Support policies that increase revenue streams justified by the market and mitigate actions that impact student success and access.
7. Address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to accomplish our mission.
8. Acknowledge that budget unit heads are in the best position to recommend allocations within their units but recognize the ultimate budget authority of the President.

The illustration on the next page lists key FY 2013 budget formulation activities.

Calendar of Budget-related Events

October 2011 – October 2012

October 1, 2011	Fiscal Year FY 2012 begins.
November 17, 2011	President announces expanded charge of University Budget Committee.
February 2012	UPBC issues FY 2013 budget call for Division expense requests, revenue forecasting, capital budget, and priorities for FY 2014 request for federal funding. UPBC Issues call to University Faculty, Gallaudet Staff Council, the Student Body Government, and the Graduate Student Association to review and respond to division expense budget requests, revenue forecasts, capital budget proposals, and recommendations on employee salary treatments, and priorities for requesting FY 2014 federal funding.
March 2012	Revenue forecasts, division expense budgets, capital budget proposals, and priorities for request FY 2014 federal funding due and shared with University Faculty, Gallaudet Staff Council, the Student Body Association, and the Graduate Student Association.
April 2012	UPBC recommends FY 2013 operating and capital budgets, employee salary treatment, changes to tuition and fees for Fall 2013, and priorities for requesting FY 2014 federal funding to the President. University Budget Director prepares FY 2013 budget document for review and approval by the President
May 2012	President's Office reviews UPBC proposals and makes recommendations to the Board of Trustees Board reviews budget recommendations for approval Board reviews President's recommendation for Fall 2013 tuition and fees for approval.
June 2012	President's Office submits FY 2014 budget request to U.S. Department of Education.
September 30, 2012	Fiscal Year 2012 ends.
October 1, 2012	Fiscal Year 2013 begins.

STRATEGIC PLANS

Gallaudet University maintains the GSP comprised of five strategic goals and the CCSP comprised of three goals as shown below.

Strategic Goals

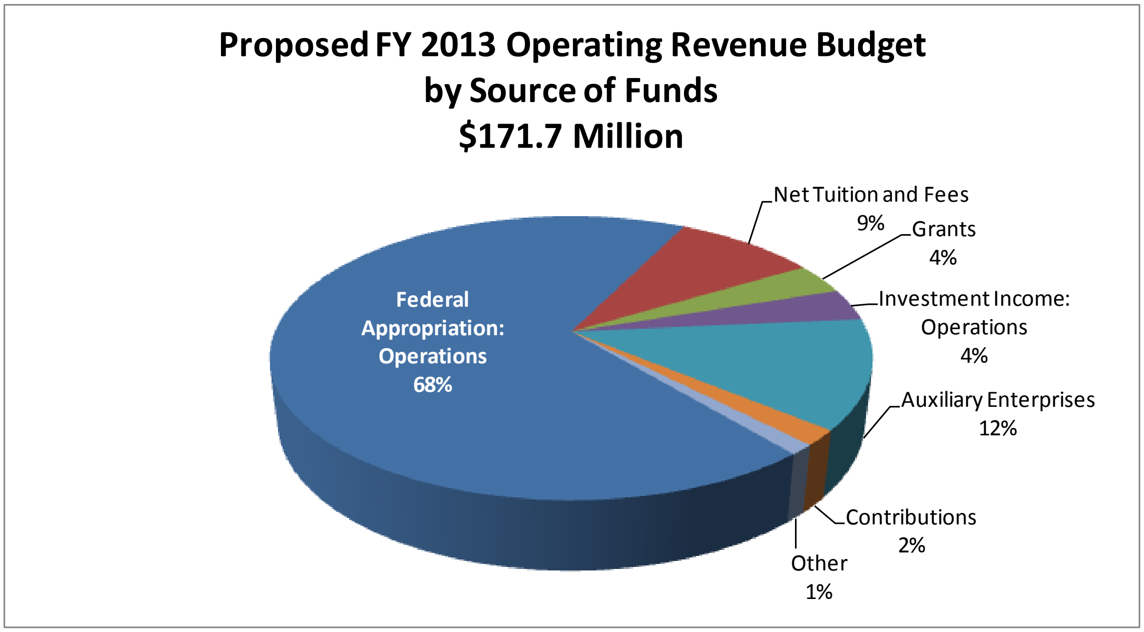
GSP Strategic Goals	***CCSP Strategic Goals***
A. Grow Gallaudet's enrollment of full-time undergrads, full- and part-time graduate students, and continuing education students to 3,000 by 2015 *B. By 2015, increase Gallaudet's six-year undergraduate graduation rate to 50%* *C. By 2015, secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations* *D. By 2015, refine a core set of undergraduate and graduate programs that are aligned with the institutional mission and vision, leverage Gallaudet's many strengths, and best position students for career success* *E. Establish Gallaudet as the epicenter of research, development and outreach leading to advancements in knowledge and practice for deaf & hard of hearing people and all humanity*	*1. Students will reach their full potential linguistically and academically from birth through 21 years of age.* *2. The Clerc Center will provide leadership in the identification, evaluation, and dissemination of evidence-based instructional practices, strategies, and resources for deaf and hard of hearing students with disabilities through a national collaborative project with schools and programs.* *3. The Clerc Center will identify and disseminate resources to ensure that all deaf and hard of hearing children and their families have early and ongoing access to information that supports the development of linguistic competence.*

The GSP and the CCSP establish the roadmaps that guide us as we strive to carry out the institution's mission. Since May 2009, the University has been working to implement the GSP and the CCSP. Over the past three years, the institution has seen some changes. Some strategies are done, some are still in progress, and some may be outdated. Action plans prepared for each strategy are in varying stages of completion. The UPBC has begun a systematic and comprehensive review of both the CCSP and the GSP. The Committee has begun to review existing processes for, and progress towards, achieving the strategic plans. The Committee intends to compile a report on this comprehensive assessment on the progress of each goal, objective and strategy, and the ability to measure progress of each.

In accordance with Goal D above, two important activities were completed in Spring 2011 to prioritize academic and non-academic programs. The Program Prioritization Task Force (PPTF) prioritized all existing university-level academic programs and the Administrative Programs and Services Review Committee (APSRC) prioritized non-academic programs. The reports generated by these two activities continue to be relevant in informing resource allocation decisions. The University continues to work towards implementing recommendations made by the two program prioritization groups.

It is also important to note that, the CCSP expires at the end of FY 2012. The CCSP is established using input from the public, collected and analyzed through a carefully designed process. As the current CCSP (2009-2012) draws to a close, input collection on the critical needs in the education of deaf students for the next strategic plan (2013-2017) will be completed. Throughout this process, the Clerc Center will continue to focus on increasing representation of respondents from underrepresented groups. The Clerc Center is now beginning the process of analyzing responses for themes that will help guide stakeholders in the selection of strategic priorities to form the Clerc Center's next strategic plan.

PROPOSED FY 2013 OPERATIONS REVENUE BUDGET



Gallaudet's operating revenues are comprised of the federal appropriation, tuition and fees, grants and contracts, investment income for operations, auxiliary enterprises, contributions and a small amount from miscellaneous activities.

As a small institution, Gallaudet's budget is relatively more sensitive to what would be considered minor variations at a larger institution. Overall, the University is seeing a decrease in operating revenues due to—

- The heightened attention to federal spending resulting in the forecast of flat federal funding,
- The volatility of the financial market and the economic climate,
- The closure of the video relay services, and
- A reduction in federal grant funding.

Assuming the federal appropriation remains at the current rate, which is down by $500 thousand when compared to FY 2010, total operating revenues are expected to be down by almost one percent. Net tuition and fees revenue is expected to see an increase of 19 percent due to the 7 percent increase in tuition effective Fall 2012, a discount rate of 32 percent, and anticipated increased enrollment. Similarly, some auxiliary enterprises such as room and board are expected to increase. Fall 2012 will be the first semester to charge students the additional 9 percent room charge. However, the increases in those categories will be offset by—

- The loss of revenue from the closure of video relay services in the Fall 2011, and
- The volatility in the financial market that continues to impact proceeds from the endowment available for operations.

Contributions and revenue from other sources are expected to remain level in FY 2013.

<u>Recommendation</u>
The UPBC recommends establishing the operating budget for FY 2013 at $171.7 million. This is $1.7 million or almost one percent less than the FY 2012 budget. Per the Board of Trustees', and the administration's direction, the operating budget was prepared to yield an operating surplus. The planned surplus for FY 2013 is recommended as $2 million or 1.2 percent.

The table below provides a breakdown of the recommended operating revenue budget by source of funds. A description of the basis for forecasting each component follows.

Operating Budget by Source of Revenue
(dollars in thousands)

Source of Revenue	FY 2013 Proposed Budget	% of Total	Amount of Change	% Change	FY 2012 Budget	% of Total
Federal appropriation – Operations	$117,500	68%	($500)	(0.4%)	$118,000	68%
Tuition and Fees	23,000		$2,800	14%	20,200	
Less: Scholarship Aid	(7,400)		(300)	4%	(7,100)	
Net Tuition & Fees	15,600	9%	$2,500	19%	13,100	8%
Grants and Contracts	6,000	4%	(1,000)	(14%)	7,000	4%
Investment Income-Operations	6,200	4%	(500)	(7%)	6,700	4%
Auxiliary Enterprises	21,400	12%	(2,200)	(9%)	23,600	14%
Contributions	3,000	2%	-	-	3,000	2%
Other	2,000	1%	-	-	2,000	1%
TOTAL	**$171,700**		**$(1,700)**	**(1)%**	**$173,400**	

Federal appropriation

FY 2013 Projected Federal Appropriation
(dollars in thousands)

	Projected FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010	Actual FY 2009
Federal appropriation for operations	$117,500	$118,000	$117,764	$118,000	$118,000

Gallaudet does not anticipate any increase in its federal appropriations, which by far is the largest revenue source. As the funding history chart below indicates, the University has not seen an increase in its operational appropriation since FY 2009. In fact, across the board rescissions in FY 2011 and FY 2012 led to reductions in Gallaudet's operations appropriation. As in years past, Gallaudet uses its operating appropriation to offset Education of the Deaf Act allowable expenses that support the institution's primary mission.

History of Federal Appropriated Funds

Fiscal Year	Total ($000)	Operations ($000)	Construction ($000)
2012	125,516	117,541	7,975
2011	121,764	117,764	4,990
2010	123,000	118,000	5,000
2009	124,000	118,000	6,000
2008	113,384	113,384	(see note below)

Reflects corrected amount for FY 2011 construction appropriation

Note: The $4 million appropriation for construction in FY2008 was included in the base appropriation for operations as a part of the increase in support from the previous year. However, this appropriation, in later years, was not included in the base, but was made separately from the operating appropriations. This means, operations in subsequent years did not see the significant increase achieved in FY 2008.

Although economic activity in the United States is beginning to show signs of recovery in some areas, presently, there is no indication that federal appropriations will see any increase for the foreseeable future. The Budget Control Act of 2011, passed by Congress and signed into law by President Obama, requires significant reductions in federal appropriation levels commencing in FY 2013. The Obama budget proposes that Gallaudet's operational funding remain level in FY 2013. However, President Obama allocated no funding for constructing the Model Secondary School for the Deaf (MSSD) residence hall at the Clerc Center, effectively recommending a greater than 6 percent reduction to the Gallaudet overall FY 2013 appropriations compared to FY 2012.

The appropriation for construction over the past 5 years was specifically designated for the demolition of the old MSSD residence halls, stabilizing the soil and partial funding for a new residence hall. The new residence hall is projected to cost $28 million. To date, Congress has appropriated $21 million. Gallaudet hopes to receive a final installment of $7 million in our FY 2013 appropriation to allow the University to commence construction. The construction appropriation will be discussed in more detail later in this document.

Recommendation
The UPBC supports the federal appropriations for the operations budget be $117.5 million, an amount that reflects the recent climate in the federal government and recognizes the recent rescissions that reduced Gallaudet's appropriation in FY 2011 and FY 2012.

Tuition and Fees

FY 2013 Projected Tuition and Fees Revenue and Recent History
(dollars in thousands)

	Projected FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010	Actual FY 2009
Gross Tuition	$23,000	$20,200	$19,313	$18,991	$17,352
Student Aid	($7,400)	($7,100)	($6,782)	($6,306)	($5,591)
Net Tuition	$15,600	$13,100	$12,530	$12,685	$11,761

The revenue from tuition and fees, as forecasted above, reflects the Board-approved 7 percent increase in Fall 2012 tuition and fees.

Recommendation
The UPBC recommends the gross tuition and fees budget of $23 million based on the 7 percent board-approved tuition increase that will take affect this Fall 2012 and the enrollment forecast below.

Enrollment

The overall university level enrollment shows a modest increase in FY 2013. Last year, the University forecasted that enrollment was expected to decrease slightly. The Annual Enrollment Report shows that university-level Fall 2011 enrollment was up nearly 1 percent to 1,611. Looking forward to Fall 2012, the tuition and fees, room, and board revenue budgets were forecasted based on total university-level enrollment of 1,670. Overall, the University expects to see approximately 4 percent growth in university-level enrollment, and 3 to 5 percent growth in Clerc Center enrollments.

Enrollment Projection

	Projected FY 2013							FY 2012		
	Fall 2012			Spring 2013			Summer 2013	Fall 2011		
	Total	Full-time	Part-time	Total	Full-time	Part-time	Total	Total	Full-time	Part-time
UNIVERSITY-LEVEL ENROLLMENT										
Undergraduate	1143	1079	64	1068	1008	60	183	1118	1071	47
Graduate	452	318	134	416	294	122	186	428	303	125
English Language Institute	75	75	0	70	70	0	27	65	65	0
Total University	**1670**	**1472**	**198**	**1554**	**1372**	**182**	**396**	**1611**	**1439**	**172**
CLERC CENTER ENROLLMENT										
Kendall Demonstration Elementary School	100	100	N/A	100	100	N/A	N/A	97	**97**	**N/A**
Model Secondary School for the Deaf	170	170	N/A	170	170	N/A	N/A	165	**165**	**N/A**
Total Clerc Center	**270**	**270**		**270**	**270**			**262**	**262**	
TOTAL GALLAUDET UNIVERSITY	**1940**	**1742**	**198**	**1824**	**1642**	**182**	**396**	**1873**	**1701**	**172**

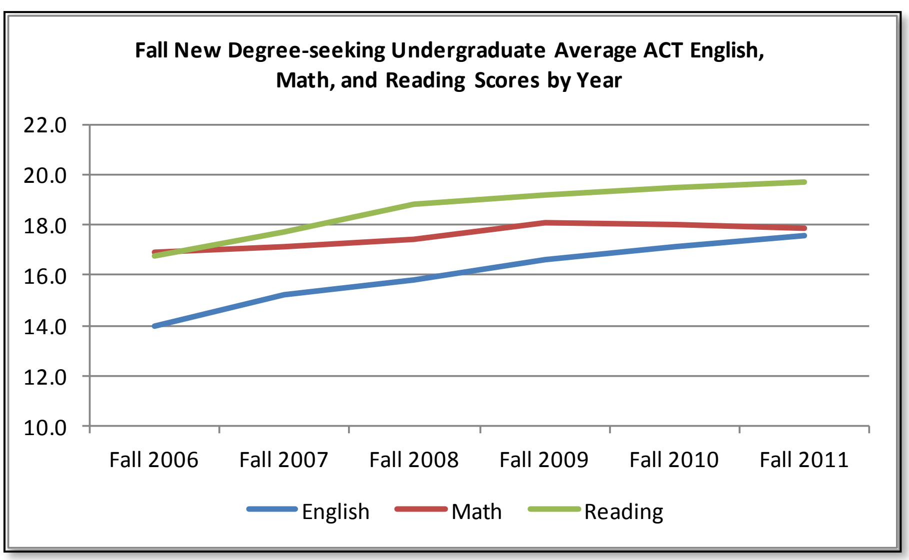
Scholarship Aid

FY 2013 Projected Institutional Aid and Recent History
(dollars in thousands)

	Projected FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010
Student Aid	($7,400)	($7,100)	($7,100)	($6,306)

Consistent with GSP Goals A and B, to increase enrollment and improve retention rates, four years ago, Gallaudet began offering 4-year merit-based scholarships. The strategy was intended to raise academic standards, improve retention, improve graduation rates, and increase enrollment. The strategy has contributed to—

- Improved ACT entrance scores for entering freshman (see table below),
- Retention rates that have met or exceeded the Government Performance and Report Act (GPRA) target of 70 percent since FY 2009, and
- GPRA graduation rates that have exceeded the GPRA target of 32 percent the past three years with the 2011 rate showing the highest rate ever of 41 percent since the measure was put in place.

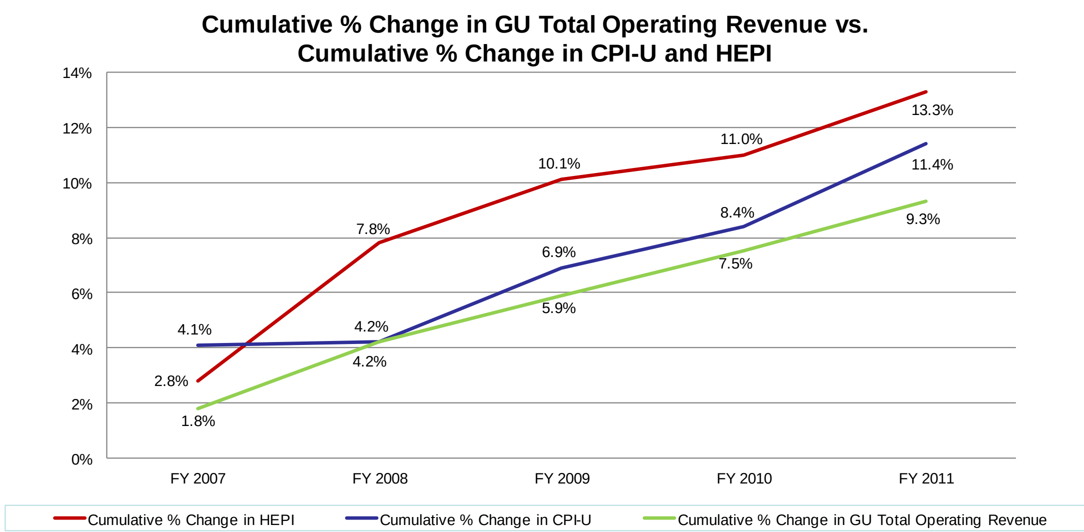


While the merit scholarships have contributed to these improvements, the University's overall financial aid package is quite generous. Gallaudet's Fall 2010 (AY 2010/2011) price of attendance[5] for a full year (fall and spring) full-time U.S. undergraduate student is approximately $23 thousand. After applying Gallaudet's institutional aid, as well as other forms of aid such as Vocational Rehabilitation, Pell Grants, Federal Student Work Study and so forth, the average student pays approximately $4 thousand out-of-pocket. It is within this context that the Committee recommends a 32 percent discount rate (calculated as total institutional aid divided by the billable tuition and fees). This represents an increase of $300 thousand to the institutional aid budget. Additionally, the UPBC recommends that the University continue evaluating its overall institutional aid strategy to determine if funds are being applied in the most strategic manner to optimize enrollment.

> ***Recommendation***
> *The Committee recommends a 32 percent discount rate and that the University continue evaluating the overall institutional aid strategy to determine if funds are being applied in the most strategic manner to optimize enrollment.*

Fall 2013 Tuition and Fees Recommendation

In light of the forecasted one percent decrease in total institution operating revenue, coupled with an average inflationary index (CPI-U) for 2011 of 3.2 percent and a 2.3 percent increase in the Higher Education Price Index (HEPI), the University's purchasing power is falling behind. The cost of goods and services, particularly oil, are rising while the University's revenue is forecasted to decrease in FY 2013.



The situation Gallaudet faces is not unique in higher education. In recent years, institutions across the country have faced decreases in state appropriations far greater than what Gallaudet has experienced. In anticipation of tough economic times, Gallaudet implemented a number of cost cutting strategies and controls as described in Gallaudet's FY 2010 and *FY 2011 Annual Report of Achievements*. Many of the strategies implemented by Gallaudet are the same strategies other institutions have implemented. For instance, *The 2011 Inside Higher Ed Survey of College and University Business Officers* and the subsequent *2011 Inside Higher Ed Survey of College and University Presidents* collected the highest rated strategies that administrators have applied in public or private institutions to increase institution revenues or decrease expenses. Strategies include, but, are not limited to—

- Increasing net tuition revenue
    - Increasing tuition by greater than 5 percent
- Recruiting more out-of-state students (not applicable at Gallaudet)

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[5] *Price of attendance for AY 2010/2011 includes tuition, unit fee, room, board, health insurance fee, and health services fee.*

- Recruiting more international students
- Recruiting more full-pay students
- Reducing the discount rate
- Securing more corporate support: grants, gifts, and contracts
- Developing/expanding online programs
- Increasing the size of the endowment
- Budget cuts targeting administrative operations and programs
- Budget cuts targeting academic programs
- Hiring freeze for administrative positions

Like these other institutions, Gallaudet has worked deliberately to increase net tuition. The increase in the Fall 2011 and Fall 2012 tuition rate, along with enhanced recruitment and retention efforts have been implemented at Gallaudet with the intent of increasing net tuition revenue. And, as described above, the UPBC is recommending a 32 percent discount rate which is just $300 thousand more than FY 2012.

During this challenging time of flat federal funding, the University has demonstrated prudent financial management as demonstrated by recent years net operating results. The University has stepped up efforts to increase revenue or decrease expenses by—

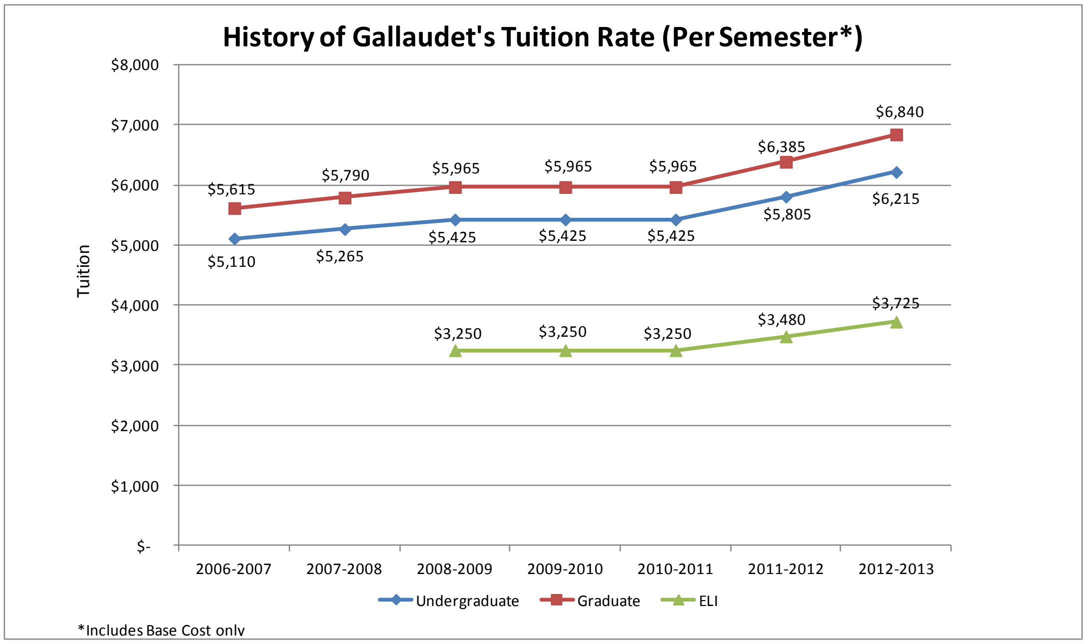
- Prioritizing both academic and non-academic programs resulting in elimination and closure of the less viable programs, and in some cases enhancement of existing programs;
- Designing and offering new programs to attract new students, and
- Identifying programs that could be expanded to serve the community such as the Hearing and Speech Center and Community Interpreting.

Despite these efforts, the University is unable to make up the loss in revenue from the closure of VRS, the decline in investment income due to market fluctuations, and the loss in grants. Consequently, the University must make difficult decisions about the operating expense budgets and whether to increase tuition.

In considering whether to increase tuition, the University considered the following:

- Cumulative growth in total operating revenue versus the Consumer Price Index – Urban, and the Higher Education Price Index for the period 2007 to 2011;
- Gallaudet's historical increases to tuition;
- The competitiveness of Gallaudet's tuition rate versus the National Technical Institute for the Deaf (NTID), the California State University at Northridge (CSUN), public 4-year colleges and universities, private 4-year colleges and universities, and Washington, D.C. local area colleges and universities; and
- Gallaudet students' access to financial aid.

Like other institutions supported by an appropriation, Gallaudet has turned to increasing tuition and fees as one means to make up for lost purchasing power. After a four-year freeze on tuition and fees, Gallaudet increased its tuition rate in Fall 2011 by 7 percent; and, by 7 percent again for Fall 2012. However, even with the Fall 2011 seven percent increase, Gallaudet's cumulative growth in published tuition fees between Fall 2001 through Fall 2011 was just 2.01 percent beyond the rate of general inflation compared to 5.6 percent increase beyond the rate of general inflation at public four-year colleges and universities. This is primarily because, when public colleges and universities were increasing tuition, Gallaudet's tuition rate was held at the Fall 2008 rate for Fall 2009, and Fall 2010 as illustrated by the graph below.



Gallaudet has reviewed the competitiveness of its Fall 2011 and Fall 2012 tuition rates versus NTID, CSUN, public 4-year and private 4-year colleges and universities. This review concludes that the 7 percent rate increases in Fall 2011 and Fall 2012 maintained Gallaudet's relative competitiveness in these groups. Additionally, while Gallaudet's price of attendance for the average U.S. full-time undergraduate student is $23 thousand per year, the average Gallaudet student receives $19 thousand in total financial aid (e.g. institutional aid, vocation rehabilitation, PELL, SEOG, Federal Work Study, etc.).

It is within this context, that the UPBC recommends an increase in the tuition rate within the range of 6 to 8 percent.

Recommendation
The UPBC believes that Gallaudet's tuition rate is fair and competitive and that the financial aid program at the University is above average for an institution with our funding sources. Given the continued competitiveness of Gallaudet's tuition rate, and the generous financial aid offered by the University, the Committee believes an increase in the range of 6 to 8 percent in Fall 2013 is appropriate and that it will provide some relief to the difficult financial challenges the institution faces.

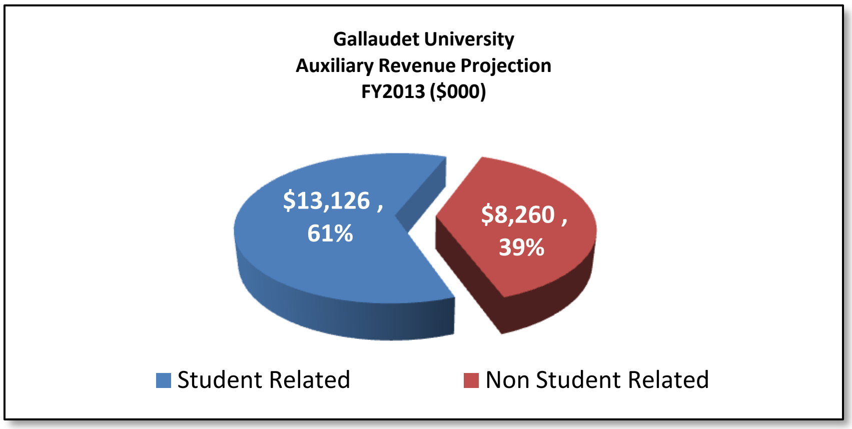
Recommendation
The UPBC further recommends that a review be conducted of other fees such as unit, application, admission, registration, and course fees in time to inform the FY 2014 budget formulation.

Recommendation
Finally, the Committee recommends that the purpose and function of the Regional Centers be reviewed to determine if they may provide an additional tuition revenue stream in future years.

Auxiliary Enterprises

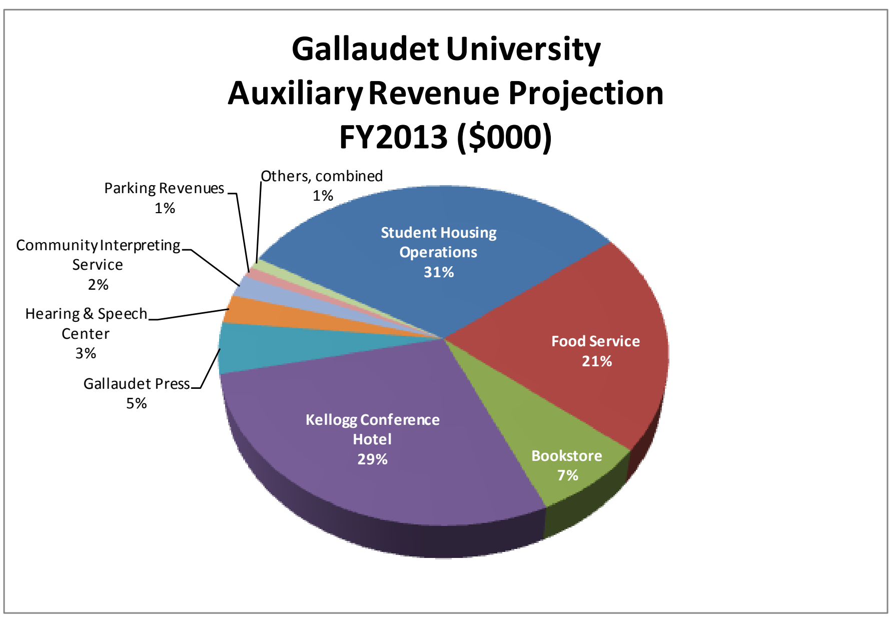
FY 2013 Projected Auxiliary Enterprises and Recent History
(dollars in thousands)

	Proposed Budget FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010	Actual FY 2009
Auxiliary Enterprises	$21,400	$23,600	$22,900	$21,947	$19,668



The auxiliary enterprise category can be sub-divided into student and non-student related activities. The primary student related auxiliary activities include student housing, food service, bookstore, and parking. Non-student related auxiliary activities include the Kellogg Conference Hotel, the Gallaudet Press, Community Interpreting, and the Hearing and Speech Center. While the non-student related auxiliaries help the University achieve the revenue diversity and growth called for in the GSP Goal C, these new activities tend to have a lower operating margin and may need one or two years before reaching a more desirable profitability.

A full breakdown of auxiliary revenues by individual auxiliary units is illustrated in the graph below.



Like most universities, student housing is Gallaudet's highest producing auxiliary enterprise unit with a net operating margin of 16.4 percent. The room rate over the next 5 years will increase by 9 percent per year and will contribute even more to the University's total financial health.

Gallaudet's total optimal occupancy will remain constant over the next few years at 1,156 with 988 current available beds, plus the additional 168 additional beds made available in the Living and Learning Residence Hall. The revenue budget for room and board is based on student housing occupancy increasing by 100 students in Fall 2012 and then by 50 students every year after until FY 2016. The Vice President of Administration and Finance has recommended examining the occupancy rates and exploring strategies to optimize occupancy and net revenue. The suggested strategies include—

- Possibly charging variable rates for different dorms given that each residence hall offers different amenities, and
- Considering requiring some categories of students to live on campus.

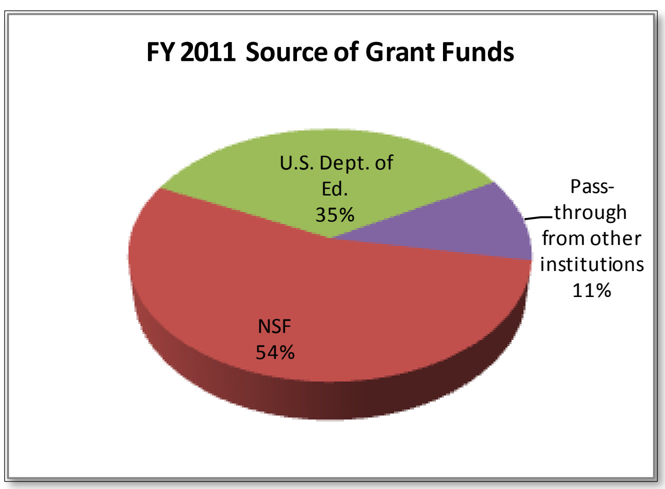
Each additional student that chooses to live on campus brings $10,781 in additional room and board revenue ($5,951 in student housing revenue plus $4,830 for board).

> ***Recommendation***
> *The UPBC recommends the auxiliary enterprise revenue budget of $21.4 million and supports the Vice President's suggestion to examine the possibility of charging variable rates for different dormitories and requiring some categories of students to live on campus.*
>
> ***Recommendation***
> *The UPBC also recommends monitoring the non-student related auxiliary enterprise units with an expectation that the margin continually increases over the next five years.*

Grants and Contracts

FY 2013 Projected Grants and Contracts and Recent History
(dollars in thousands)

	Projected FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010
Grants and Contracts	$6,000	$7,000	$5,841	$7,184



Between 2006 and 2011, Gallaudet doubled the amount of grant and contract income it receives. This increase was due mainly to the National Science Foundation Visual Language and Visual Learning (VL2) grant. Increasing grant and contract funding is another area that the University intends to grow in its efforts to reduce dependence on federal appropriations. Two GSP Goals provide us with guidance related to grant and contract funding. They are—

- GSP Goal C, objective 2 says, *"Grow revenue from grants, auxiliary enterprises, and private fundraising,"* and strategy C.2.1 says, *"Develop incentives and infrastructure to support faculty/staff in seeking, obtaining, and administering grants."*
- GSP Goal E: *"Establish Gallaudet as the epicenter of research, development and outreach leading to advancements in knowledge and practice for deaf & hard of hearing people and all humanity."*

In forecasting revenue from Grants, the University considered the schedules for current grants, the prospects of renewing existing grants, and the possibility of generating new grants with current resources. Given these assumptions, the University expects grant and contract funding to be down by $1 million due to grant expiration and renewal schedules and reduced overall federal agency funding. However, given heightened attention, the University has seen a steady increase in the number of proposals and the value of the proposals and hopes to realize increased grant funding in future years.

Recommendation
The UPBC recommends the FY 2013 Grants and Contracts budget of $6 million.

Investment Income – operations

FY 2013 Projected Investment Income (Operations) and Recent History
(dollars in thousands)

	Projected FY 2013	Budgeted FY 2012	Actual FY 2011	Actual FY 2010
Investment Income Used for Operations	$6,200	$6,700	$7,243	$7,822

For the purpose of formulating the FY 2013 budget, the University uses a moving average of the market value of the endowment fund over the past three fiscal years. Consequently, the annual endowment payout has a built-in delay in increasing and decreasing along with the stock market. While it is not possible to accurately and reliably predict the financial markets, the following conservative assumptions were used to calculate the operating investment income—

- The Endowment fund pool investment return will be 7.9 percent annually. This 7.9 percent solely captures investment performance exclusive of the annual payout or any new donor contributions. It is also the expected 10 year return based on the endowment's current asset allocation.
- There will be no new substantial donor endowment contributions.
- The annual Endowment fund payout percentage will remain at 5 percent for those endowments with a market value as of the end of FY 2011 above the historical principal value (e.g. not underwater). For those endowments with a market value below the historical principal value as of the end of FY 2011 (e.g. underwater), the payout percentage will be considered suspended until (based on a 7.9 percent return) the market value exceeds the historical principal value. In those future situations where the fund is no longer considered underwater, the 5 percent annual payout was reinstated.
- The Endowment fund pool has an approximate split of 90/10 unrestricted endowments to temporarily restricted endowments. The endowments designated as temporarily restricted have unique purposes and thus the related payout will not be used to offset Division expenses.
- The investment return for the Federal Matching fund endowment pool will be 4 percent annually.
- The Federal Matching fund endowment pool will continue to be liquidated as each ten year tranche matures. As each year matures, a million dollars is returned to the University with the balance becoming a contribution to the endowment pool.
- Short-term investment vehicles for the University's excess cash will not produce a material return.

The Board of Trustees Committee on Financial and Institutional Affairs set a precedent in FY 2012 to suspend the annual payout for the individual endowment funds with a market value as of 9/30/11 that was less than the historical principal value. If this policy is continued, this situation of being underwater, will likely result in a reduced annual payout for the coming years.

Basis for Estimating Investment Income for Operations
(dollars in thousands)

	FY 2011 ACTUALS	FY 2012 PROJECTED	FY 2013 PROJECTED	FY 2014 PROJECTED
FY08 Market Value of the Endowment Pool	$146,663	**$146,663**	$146,663	$146,663
FY08 Market Value of the Endowment Pool	$136,829	**$136,829**	$136,829	$136,829
FY10 Market Value of the Endowment Pool	$142,449	**$142,449**	$142,449	$142,449
FY11 Market Value of the Endowment Pool		**$137,733**	$137,733	$137,733
FY12 Market Value of the Endowment Pool			$144,986	$144,986
FY13 Market Value of the Endowment Pool				$152,391
Three Year Rolling Average	$141,980	**$139,004**	$141,723	$145,036
Payout Estimated at 5% (UR and TR)	$7,100	**$6,950**	$7,086	$7,252
Projected Reduction of Suspended UR Underwater	-	**-$672**	-$479	-$311
Projected Reduction of Suspended TR Underwater		**-$259**	-$172	-$172
4612 – UR Oper Inv Inc – Endowment Fund Payout	**$6,482**	**$5,688**	**$6,058**	**$6,364**
4613 – UR Oper Inv Inc – Federal Match Func	**$250**	**$202**	**$141**	**$110**
Total Operating Income	**$6,732**	$5,890	**$6,199**	**$6,474**
Income Increase (Decrease) Amount		**-$842**	$309	275
Income Increase (Decrease) Percentage		**-13%**	5%	4%

Recommendation
The UPBC recommends the investment income budget of $6.2 million based on the three-year rolling average calculation illustrated above.

Contributions

FY 2013 Projected Contributions and Recent History
(dollars in thousands)

	Projected FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010
Contributions	$3,000	$3,000	$3,800	$2,345

The contributions revenue budgeted in the operating budget, and collected through our fundraising efforts, support programmatic expenses incurred in the normal course of operating the University such as, scholarships, research, instruction, and academic support. The University's fundraising is at a critical point of its evolution. To be successful, the University must use more sophisticated, integrated strategies to secure funding across the full spectrum of donors. The Development Office has undergone significant staffing changes in the last year. As a result, the University has been able to redirect resources to more front line fundraising positions. With these improvements, the University expects to see an increase in gifts and pledges in the next investment cycle (approximately 18 months). Since many of the fundraising staff members are new, it will take time for them to cultivate relationships with current and prospective donors.

In the last two years, the University has also increased engagement opportunities with our Board of Associates and Board of Trustees to assist in development efforts. As a result of these efforts, the University is seeing very positive results in new commitments, renewed partnerships and additional gifts and pledges to the University. Based on all of these factors, the Development Office expects to see an increase in overall gifts and pledges in FY 2013 and FY 2014. These gifts will not necessarily revert to cash-on-hand for unrestricted needs. Because the University staff is working on significant donations, the donations will likely be made in pledges over a multi-year period and they will support University priorities like scholarships, specific programs, research, or capital projects. At the donor's discretion, their gifts, too, may be endowed which means that the principal cannot be used, just the interest.

Recommendation
For these reasons, the UPBC recommends that the University hold the budget for contributions level at $3 million, recognizing that the forecast only reflects those gifts or partial gifts expected to be readily available for use each year.

Other

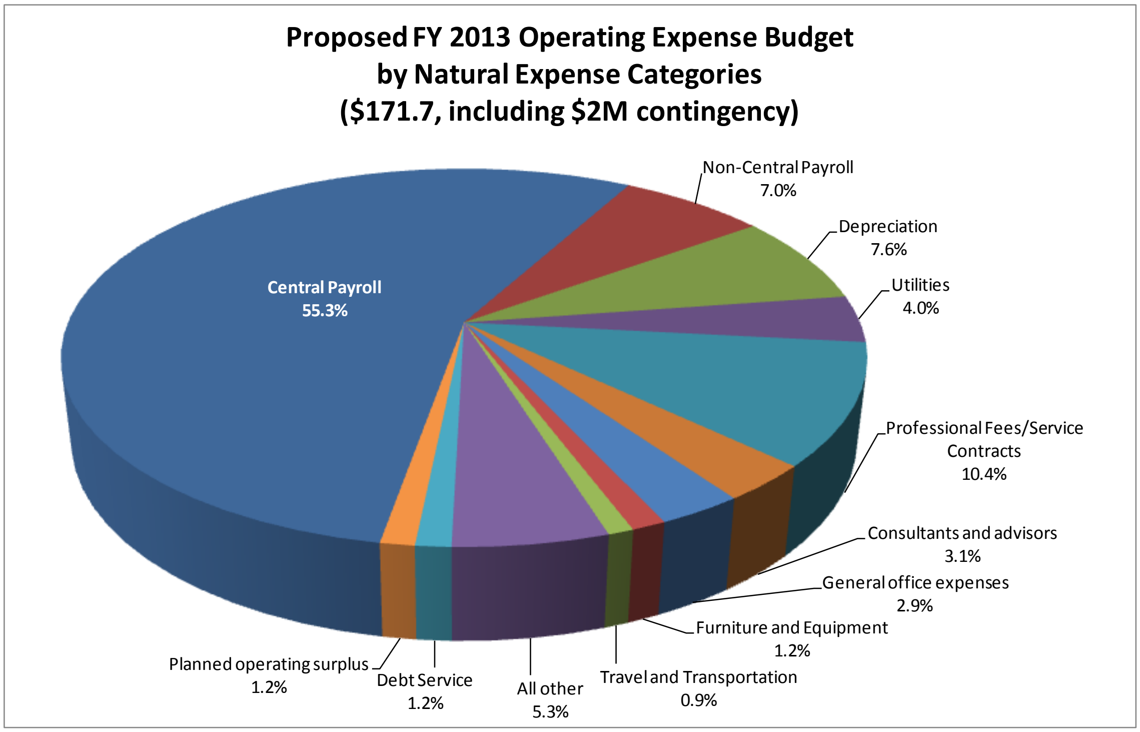
FY 2013 Projected Other Income (Operations) and Recent History
(dollars in thousands)

	Projected FY 2013	Budget FY 2012	Actual FY 2011	Actual FY 2010
Other Sources	$2,000	$2,000	$1,600	$1,739

Other sources are comprised of a number of small activities such as ASL evaluations, outreach activities, continuing education courses, theater ticket sales, use of athletic facilities, admission fees to athletics events, student fines, and summer activities. The UPBC expects the activity levels in these areas will remain at their current levels for total FY 2013 forecasted revenue from other sources of $2 million.

Recommendation
The UPBC recommends that the University budget FY2013 revenue from other sources at the same level as FY 2012, or $2 million.

PROPOSED FY 2013 OPERATIONS EXPENSE BUDGET



The expense budget is presented primarily by natural classification. Keep in mind that the budget for regular status employees (excluding grant-supported, and auxiliary enterprise-supported) is controlled centrally. Given the forecasted one percent decline in operating revenues, the UPBC is proposing an expense budget that requires trade-offs in order to preserve the financial health of the institution and continue to advance the GSP and CCSP. In other words, with one percent less funds, the University must still fund a $2.8 million increase in depreciation, and the new expense of $2.064 million for debt service. Compounding the challenge, the opportunity to identify trade-offs is limited by restrictions placed on certain funds (e.g., grants and restricted donations and endowment payout); and auxiliary enterprises must be funded at a level that will maximize its contributions to University operations. Consequently, the trade-offs must come from increasing revenue or by reducing division-controlled positions and non-centralized budgets. With payroll (centralized and non-centralized) representing 62 percent of the budget, the UPBC felt some of the trade-offs must be borne by the central payroll with the difference made up from division-controlled non-centralized funds. The UPBC recommends that the administration look to the GSP, the CCSP, the PPTF report, the APSRC report, and the Innovations Reporting Team (IRT) report for reference in determining the strategies for increasing revenue and reducing costs.

<u>Recommendation</u>

The UBC recommends Gallaudet's operating expense budget for FY 2013 be established at $171.7 million, including a contingency fund/planned surplus of $2 million. This represents a one percent decrease in the operating expense budget. This operating budget includes UPBC's recommendations to—

- *Increase the contingency/planned surplus by $500 thousand per year until it is greater than or equal to 2 percent of the University's total operating revenues beginning with FY 2013;*
- *Reduce the centralized payroll through careful consideration of filling each vacated position, specifically reducing the number of authorized positions by at least 26 (i.e., 2.6 percent of current authorized positions);*
- *Identify an additional $1.25 million through reductions to non-centralized non-payroll expense budget, excluding utilities, depreciation, and debt service;*
- *Reduce the utility budget by $1.5 million to reflect current agreed upon rates and forecasted consumption;*

- *Fund depreciation at $13.1 million, an increase of $2.8 million;*
- *Fund the new expense category of debt service at the required rate of $2.064 million;*
- *Recognize the vital role of employees' in achieving the University's mission by acknowledging their continued commitment and contributions, through an increase to their base pay based on meritorious performance and that a portion of the funds set aside for employees pay be allocated to improving the competitiveness of Clerc Center teachers' pay.*

The table below breaks down the proposed budget by expense category. Discussion on each expense category follows the table.

Operating Expense Budget
(dollars in thousands)

BUDGET BY NATURAL EXPENSE CATEGORIES						
Natural Expense Category	FY 2013 Proposed Position Allocation	FY 2013 Proposed Budget	% of Total	FY 2012 Position Allocation	FY 2012 Budget	% of Total
Payroll (includes both centralized payroll and non-centralized payroll)*	964[6]	$106,900	62.3%	990[6]	$113,800	65.3%
Utilities		$6,900	4.0%		$8,400	4.8%
Depreciation		$13,100	7.6%		$10,300	5.9%
Debt Service		$2,064	1.2%		$0	0%
Professional Fees/Service Contracts		$17,800	10.4%		$16,700	9.6%
Consultants and Advisors		$5,400	3.1%		$5,900	3.4%
General Office Expenses		$5,000	2.9%		$5,300	3.0%
Furniture and Equipment		$2,000	1.2%		$2,200	1.3%
Travel and Transportation		$1,500	0.9%		$1,500	0.9%
Other non-payroll		$9,036	5.2%		$7,800	4.9%
Contingency		$2,000	1.2%		$1,500	0.9%
TOTAL	**964**	**$171,700**		**990**	**$173,400**	

Payroll

Recommendation

The UPBC recommends an FY 2013 payroll budget of $106.9 million comprised of 964 positions, 26 less than the current level, and $1 million to acknowledge employees continued commitment and contributions through an increase to employees' base pay. The Committee recommends that the pay increase be based on meritorious performance and that a portion of the $1 million be allocated to improve the competitiveness of Clerc Center teachers' pay.

In formulating the FY 2013 payroll budget, guiding principle number 7 resonated with the Committee. It says, *"Address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to accomplish our mission."* The Committee recognized the immediate need to balance the budget, budget for a contingency fund/operating surplus, fund the rising cost of depreciation, and fund the new expense category of debt service. In addition, they must achieve this with fewer funds than collected in FY 2012. The analyses and forecasting for payroll revealed that this could not be achieved without reducing the number of authorized positions (general fund regular, grant, and income) by at least 26 positions or 2.6 percent. Yet, the Committee strongly believes that for the University to *'emerge in the strongest possible position to accomplish our mission*,' the institution must acknowledge the importance and value of its employees in carrying out that mission.

In FY 2012, the payroll budget represented 65.3 percent of the total University operating expenses. Over the past two years, the University has realized savings from tightly controlling and reducing positions. In the Spring 2010, the University laid off 39 employees. However, the full savings from the laid off employees was not realized until FY 2011.

[6] Note: In FY 2012, the position allocation was shown as 910. That number reflected only general fund, regular status positions. The Administration recommends that this should reflect all regular status positions including general fund, grant-funded positions, and income-supported positions. Income-supported positions primarily support auxiliary enterprise operations.

That, coupled with the UPBC recommendation to reduce the number of regular status employees by at least 2.6 percent (i.e., 26 positions), are the main sources of reductions recommended in the payroll budget. Among the factors that influence payroll expenses are employee attrition (e.g., resignations, retirements), the length of time vacancies remain open, and the departure of long-time employees replaced by new employees that are paid less. A minimum of 26 fewer positions is necessary to balance the budget.

> ***<u>Recommendation</u>***
> *The Committee recommended the following strategies for the administration to consider in achieving the reduction—*
>
> - *Review the status of PPTF and APSRC recommendations;*
> - *Require each Division to prepare a staffing plan at the organization/unit level; and*
> - *Review vacancies as they become available (i.e., typically 60 to 80 vacancies per year), and to determine the cost/benefit and viability of outsourcing some functions.*

The Committee asserts that the reduction should not be achieved through a hiring freeze, as critical positions (e.g., those positions that provide safety and security of campus community, are mission-critical, and/or fulfill legal mandates) must be filled. Additionally, the Committee believes that once the non-tenure track category of faculty becomes established, the institution should carefully plan and monitor the use of adjunct faculty and faculty overload pay. However, if the administration decides to achieve the position reduction it must pay careful attention to assure positions critical to fulfilling the institution's mission are filled, employees' efforts are optimized and directed to achieve the GSP and CCSP goals, and, that employees are recognized for their efforts.

Finally, the decision to recognize employees with some kind of monetary award must take into consideration the current political climate. While the U.S. economy is showing signs of improvement, there continues to be increased attention towards federal government spending and reducing the federal deficit. With 2012 being an election year, this heightened attention is likely to continue, even after the election. Nonetheless, Gallaudet froze employees' salaries two years prior to federal employees, a factor that must be considered in the administration's recommendation.

Competitiveness of Employees' Salaries and Benefits

A key decision point in the budget process is the Board's approval of employees' salary treatment for the upcoming year. The institution is committed to maintaining a work place that recognizes the importance and value of its employees to carry out its mission. Therefore, the institution offers its employees competitive salaries along with a comprehensive fringe benefits package that includes, among other things—

- Participation in federal retirement systems
- Participation in Federal Employees Health Benefits Program
- Vacation and sick leave
- 13 University observed holidays, plus a floating holiday for staff
- Tuition waivers and tuition assistance for immediate family

Yet, employees have not received an increase to their base pay for three years. If no base pay is awarded in FY 2013, that will mark the fourth year of no pay increase. As indicated above, the University is operating with fewer employees. And, the institution's employees are critical to carrying out its mission. The institution must have the right number of employees, with the right skills to be successful. In the paragraphs below, the competitiveness of each employee category will be discussed. While salaries are on the fringe of being competitive for staff, faculty salaries lag behind the current comparator group by at least 3 percent for most ranks, and Clerc Center teacher salaries are in the bottom 15th percentile compared to the schools, and schools systems, in the survey. Teacher salaries, in some classifications, are lagging by as much as 10 percent.

At a time when the University is forecasting increased enrollments and making strides towards implementing the GSP and CCSP, the UPBC believes that the institution must invest in its employees by recognizing the vital role they play in achieving the University's mission. The UPBC recommends that the institution acknowledge their continued commitment and contributions through allocating $1 million (i.e., one percent) towards an increase to employees' pay based on meritorious performance as evaluated through existing systems. Additionally, because Clerc Center teachers do not have a standing merit system through which an increase can be administered, the Committee recommends that the administration allocate a portion of the $1 million to improve Clerc Center teacher salaries as well.

The UPBC also recognizes that reducing regular status employees may shift workload to contractors and/or increase reliance on temporary faculty and/or staff. It is within this context, that the UPBC recommends—

- Each Division prepare a staffing plan at the organization level to document the staffing needed to achieve organization level objectives that support the GSP and CCSP;
- Vacated positions be evaluated to determine if certain, non- inherently institutional needs can be achieved through contracted services.

Inflation

The table below shows the history of Gallaudet general pay increases to employees' base pay from FY 2005 through the present. Historically, Gallaudet maintained the competitiveness of employees pay through awarding general pay increases to base pay for all employees, merit increases to the base pay for University faculty and staff, and through step increases for Clerc Center teachers. Since FY 2009, the University has not awarded a general pay increase to employees' base pay, nor has it awarded merit increases or step increases. Except for promotions, employees' base pay has remained frozen at the FY 2009 levels. This freeze was implemented two years prior to the federal government's intent to freeze federal employees pay. With increased cost of goods and services rising by a cumulative 17.6 percent since 2005, Gallaudet employees received a cumulative general pay increase of only 10 percent. However, in the years prior to 2009, most employees were also eligible for merit increases that helped to somewhat offset the impact of inflation. Additionally, for those employees hired since FY 2009, they have received no general or merit increase to their pay. These 'new' employees are the employees that will carry the institution into the future. They are often the individuals just starting their careers and establishing their financial path for themselves and their families.

Change in Gallaudet General Pay Increase and CPI-U, FY 2005-FY 2011

Fiscal Year	GU General Pay Increase	CPI-U*
2005	2.0%	3.4%
2006	2.0%	3.2%
2007	2.0%	2.8%
2008	2.0%	3.8%
2009	2.0%	-0.4%
2010	0%	1.6%
2011	0%(2% lump sum awarded)	3.2%
2012	0% (tbd)	
Cumulative percentage increase (computed without compounding), 2005-2011	10.0%	17.6%

**Source: U.S. Bureau of Labor Statistics*

Peer Comparisons

To evaluate the competitiveness of employees' salaries, the University employs three strategies—

- **University Faculty** - Annually, the University Faculty prepares an analysis of their salaries based on data published by the American Association of University Professors (AAUP). They compare Gallaudet faculty salaries by rank against an established group of comparator colleges. Historically, general pay increases coupled with merit increases have proven effective at maintaining the competitiveness of overall faculty pay. The review of the April 2012 AAUP survey results show that faculty at all ranks lag behind the adjusted mean by at least 3 percent, with the Assistant Professor rank lagging by more than 8 percent.

Comparison of Salary Ranges For FY12
(Effective October 1, 2011 through September 30, 2012)

Institution	Professor	Associate Professor	Assistant Professor	Instructor
American	156,100	101,300	75,000	50,400
Catholic	113,000	79,200	68,400	57,600
George Mason	130,900	85,400	71,000	59,000
Georgetown	167,100	109,000	94,400	
George Washington	152,000	103,100	84,200	62,400
Howard	105,000	75,300	67,800	55,600
Bowie State Univ	86,200	69,700	62,400	59,000
Maryland, CP	136,300	95,700	83,900	60,100
Mean	130,825	89,838	75,888	57,729
Mean Adjustment*	-6.30	-3.00	-1.70	-1.70
Adjusted Mean	122,583	87,142	74,597	56,747
Gallaudet	**118,700**	**83,900**	**68,100**	**54,500**
Difference $	-3,883	-3,242	-6,497	-2,247
Difference %	-3.17	-3.72	-8.71	-3.96

- **Clerc Center Teachers** – The Clerc Center performs an analysis every three years on the same schedule as the University's staff salary analysis. They compare teachers' salaries against those at large schools for the deaf located in large urban cities, as well as local school districts in the tri-state area (Maryland, DC, and Virginia). This sampling of schools allows for both the comparison against schools of similar setting, as well as teacher pay rates in the DC area. The Clerc Center also considers teacher contract requirements in other schools and the number of instructional and workdays at those schools as compared to those at the Clerc Center. Survey results show Clerc Center teacher salaries are in the bottom 15th percentile compared to the schools, and schools systems, in the survey. Salaries in some classifications are lagging by as much as 10 percent.

- **Staff** – Every three years the University collects competitive base salary information on more than 80 benchmarked positions. These positions are selected based on the following criteria: common with educational institutions, difficult to retain, market sensitive, representing all levels and functions within Gallaudet, and containing multiple incumbents. The competitive market used for the review is defined as education and non-profit institutions, 1200 full-time employees with a similar operating budget, and local to the Washington, DC area. Because of the difficulty in recruiting employees with the appropriate skills required to work at Gallaudet, the midpoints of the salary structure grades are designed at the 65th percentile of the competitive market. Between the 3-year full benchmarking surveys, an abbreviated analysis is completed every year to determine the salary ranges for the next fiscal year.

Given that President Obama has frozen federal employees' pay, the University believes that it is unlikely to receive additional federal funds for employee pay raises. Therefore, should the University administration decide to award an increase for employees, the funds would have to be found from within through prioritization and reallocation. Despite these difficult financial times, the Committee strongly believes that for the University to '*emerge in the strongest possible position to accomplish our mission*,' the institution must acknowledge the importance and value of its employees in carrying out that mission by awarding some kind of monetary award.

Utilities

> ***Recommendation***
> *The UPBC recommends that based on the administration's forecast for FY 2013, the utility budget be reduced to match current consumption and current rates or $6.9 million. The Committee acknowledges that if the costs should rise, the University may be required to review allocations in other expense categories to make adjustments.*

In the current energy market, it is difficult to forecast utility usage. While utilities doubled during the period FY 2003 to FY 2009, they fell in FY 2010. Additionally, Gallaudet has recently undertaken a number of energy conservation and monitoring measures that are intended to reduce our consumption. Gallaudet currently is benefiting from favorable rates negotiated with the utility companies last year. For the past two years, FY 2010 and FY 2011, Gallaudet's utility expenses have gone down.

Gallaudet is committed to managing its energy use as demonstrated by the FY 2012 $11.6 million energy conservation project. President Hurwitz further demonstrated this commitment to sustainability by joining nine other university presidents in signing the District of Columbia Mayor's College and University Sustainability Pledge (CUSP) intended to ensure that the District is environmentally, economically and socially sustainable. The pledge is an agreement by the schools to pursue sustainability measures related to energy use and buildings, green education, transportation, waste reduction, grounds maintenance, purchasing, and the management and reporting of progress.

Depreciation

> ***Recommendation***
> *The UPBC recommends funding depreciation at $13.1 million and that the budgeted amount become the base budget for its capital budget, primarily intended for institutional renewal.*

Gallaudet capitalizes buildings, building improvements, outside improvements, software over $25,000, furniture and equipment over $5,000 with depreciable lives greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Asset Class	Estimated Lives (years)
Land improvements	60
Buildings	40 to 60
Building improvements	20 to 60
Outside improvements	10 to 20
Library books	10
Furniture and equipment	5
Software	3

In addition to the regular capital projects that occur annually, in FY 2012 the University embarked on additional large dollar capital projects financed through the tax-exempt debt offering. While these additional projects were necessary to revitalize the housing stock and improve energy efficiency, they result in a sizable increase to our annual depreciation. The investments in the following projects comprise $2.03 million of the $2.8 million increase in depreciation—

- The energy conservation project,
- The new Living Learning Residence Hall,
- The geothermal heating and cooling for the new residence hall, and
- The renovation of existing residence halls.

However, over time, the investment in these projects is intended to expand our housing revenue and reduce utility consumption and costs.

It is Gallaudet's practice to fund depreciation and to adopt the budgeted amount for depreciation as the base budget for its capital budget (see Capital Budget section for additional details).The administration anticipates that future major construction and renovation projects will have longer estimated lives and the depreciation expense will stabilize in two to three years.

Debt Service

Recommendation
The UPBC recommends funding debt service at $2.064 million.

On May 12, 2011, Gallaudet successfully entered the capital markets for the first time in its history with a pricing of the $40 million tax-exempt bonds. As a result of the bond sale, the net proceeds were roughly $39.5 million, after the original issue discount. From that amount, approximately $3 million was used to set up a capitalized interest fund to cover the interest payments during the period of time that the facilities are being constructed, plus funds to pay a required fee to the District of Columbia Revenue Bond Program for the transaction. The remainder of the proceeds from the bond sale, $36.5 million, is being used for the projects as follows:

Uses of Tax-Exempt Bond Proceeds

Description	Amount ($000s)
New 'Living and Learning' Residence Hall	$18,700
Energy conservation	10,600
Geothermal	1,700
Other projects, to be determined (possibly Fay, Ballard, and Dawes Houses)	5,490
Total	**$36,490**

The projects financed with tax-exempt funds support GSP Goals, A, B, and C as they are expected to revitalize the University's student housing stock. Specifically, the new residence hall supports attracting and retaining more students to boost enrollment, while the energy conservation project supports Goal C through efficient use of institutional resources.

This 30-year bond issue will require semi-annual payments on October 1 and April 1 every year from FY 2013 through FY 2041. From the time of the sale of the bonds to the October 1, 2012 payment date, the capitalized interest fund, described above will cover the required interest payments. The table breaks down the next 5-year bond payment schedule, showing the expense for FY 2013 as $2.064 million.

Bond Payments and Expenses FY 2013 through FY 2017

	Cash Outflows			Expenses		
Fiscal Year	Principal Payments ($000s)	Interest Payments ($000s)	Total Debt Service ($000s)	Interest Expense ($000s)	Amortization Expense ($000s)	Total Expense ($000s)
FY 2013	705	2,012	2,717	2,007	57	2,064
FY 2014	730	1,990	2,720	1,992	51	2,043
FY 2015	750	1,968	2,718	1,975	47	2,022
FY 2016	770	1,944	2,714	1,955	45	2,000
FY 2017	800	1,916	2,716	1,931	43	1,974

Other Expenses in Division Operating Budgets

Recommendation
In light of the forecasted decrease in revenue, the UPBC recommends a budget of $40,736 million for other expenses. This amount already reflects the $1.25 million reduction. The Committee recommends that the specific areas to be reduced be determined based on the comprehensive assessment of the progress on the GSP and CCSP to be completed in the near term, and that reductions must be consistent with the recommendations made in the Program Prioritization Task Force and Administrative Program Services and Review Committee reports.

Other expenses include transportation and travel, general office expenses, consultants and advisors, professional fees, professional development, printing and publishing, Bookstore and Press 'cost-of-goods-sold,' furniture and equipment, access services. These categories amount to $41 million, or 24 percent of the expense budget. Given the almost 1 percent decrease in operating revenues along with the $2.064 million debt service expense and a $2.8 million increase in depreciation, the institution must make trade-offs. As mentioned earlier, the Committee is committed to assuring the institution's financial health and that it is positioned to carry out its mission and two strategic plans. The trade-offs represented in this document were achieved through $1.25 million. The Committee encourages the administration to continue to seek expansion of existing revenue streams and in identifying new revenue streams. The constraints of the FY 2013 budget draw increased attention to the importance of continuing to identify opportunities to grow enrollment.

To formulate the budget for these categories, each Division was asked to present a budget proposal that included three scenarios that allocate funds into payroll and the categories described above. The three scenarios were: 1) what they need to implement the GSP and the CCSP, 2) flat—the same as FY 2012, and 3) minus 5 percent. For scenario 2, the Divisions were instructed to reallocate their existing budget among expense categories to reflect their spending plans for the coming year. Scenario 2 was used as the basis for preparing this budget proposal minus $1.25 million. The UPBC recommends that the administration and the UPBC work collaboratively over the next several months to identify a net minus $1.25 million. Specifically, the UPBC recommends that the administration —

- Assess progress on the GSP and CCSP, and
- Identify areas to absorb these cuts that would have the least impact on the strategic plan.

Recommendation
The UPBC recommends that analyses of each 'non-payroll expense category' except for utilities, depreciation, and debt service be conducted to identify efficiencies or opportunities for cost savings.

Contingency/Planned Operating Surplus

Recommendation
Allocate $2 million, $500 thousand more than the amount allocated in FY 2012 for contingency/planned surplus; and increase the contingency/planned surplus by $500 thousand per year until it is greater than or equal to 2 percent of the University's total operating revenues beginning with FY 2014.

As mentioned earlier, two of the objectives of the FY 2013 Gallaudet budget proposal are to recommend a budget that provides for—

- Strategically planning for operating results that, over time, will yield a Net Operating Revenues Ratio within the range of 2 to 4 percent; and
- Allowing for sufficient flexibility to allow for unforeseen expenses.

It is considered best practice in higher education for the net operating surplus to be in the range of 2 to 4 percent. Again, the Committee refers back to Guiding Principle number seven that states, "*Address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to accomplish our mission."* The Committee's recommendation is in keeping with ensuring that the University's long-term financial health is preserved. For Gallaudet a two percent operating surplus, would be about $3.4 million. The UPBC is committed to increasing the planned surplus by building into its budget an additional $500 thousand per year to, over time, yield a minimum of a 2 percent operating surplus.

PROPOSED FY 2013 CAPITAL BUDGET

FY 2013 Base Capital Improvement Plan
(dollars in thousands)

Description	Amount
Deferred maintenance projects	**$2,700**
Annual Allocations	**$1,500**
Capital improvement projects - renewal	**Up to $8,900**
Total	**$13,100**

Recommendation
Using the amount equal to the estimated FY 2013 depreciation expense of $13.1 million, the UPBC recommends allocating $2.7 million for deferred maintenance, $1.5 million for annual allocation categories, and up to the remaining $8.9 million for construction/major renovation. This includes allocating $500 thousand for residence hall furniture, $500 thousand for athletics capital improvements, and $500 thousand for a construction contingency fund. The remaining $8.9 million will remain available for major capital improvement and/or renovation projects to be allocated once the facilities master plan is approved.

Gallaudet expects to have three major sources of funds available for capital improvements,

1. An amount equal to depreciation, or $13.1 million to provide for annual reinvestment in and long-term systematic replacement of the physical plant,
2. Accumulated federal appropriations intended to fund the construction of a new residence hall for the Clerc Center ($28.1 million Congress recommends an FY 2013 construction appropriation for the remaining $7 million), and
3. Approximately $5.5 million of uncommitted tax-exempt bond proceeds.

The following principles govern Gallaudet's approach to funding capital improvements—

- Projected depreciation expense sets the minimum amount of funds to set aside for capital improvements to prevent operating deficits and to provide for annual reinvestment in, and long-term gradual replacement of, the physical plant;
- The federal government should finance large Clerc Center improvement projects;
- The University will leverage fundraising opportunities to supplement the capital improvement budget.

Additionally, as approved by the Board in the FY 2012 budget, Gallaudet will increase the deferred maintenance portion of its capital budget gradually until it reaches an amount equal to 2 percent of *Net land, buildings and other property* as reported in the University's annual audited financial statements. Therefore, the deferred maintenance budget for FY 2013 is forecast to be $200 thousand greater than FY 2012 or $2.7 million.

Annually the University allocates $1.5 million to the following categories:

- $500 thousand for residence hall furniture replacement;
- $500 thousand to continue to upgrade athletic facilities until they are on par with the athletic conference;
- $500 for construction contingency fund.

Up to the remaining $8.9 million will be allocated in FY 2013 to specific projects to improve or upgrade Gallaudet's existing facilities that are consistent with the proposed campus master plan. As the University continues its work on the facilities master plan, more specific details will emerge to inform deliberations on specific capital improvement allocations in FY 2013.

Federal Appropriations for Construction

To date, for the Model Secondary School for the Deaf (MSSD) residence hall, the federal government has appropriated $21 million of the $28 million request leaving a shortfall of $7 million. Gallaudet has used earlier appropriate funds to complete the work of removing old buildings and stabilizing the soil. However, construction of the replacement residence hall depends on the status of the federal appropriation for FY 2013 and possibly beyond. Gallaudet intends to continue requesting the remaining amounts needed to complete the residence hall.

Possible Uses for Remaining Tax-exempt Bond Proceeds

The use for the remaining $5.5 million tax-exempt bond proceeds has not yet been finalized. Projects currently consistent with the intended use of the tax-exempt bond issue and being considered include renovation of Fay, Ballard, and Dawes Houses.

PROPOSED PRIORITIES FOR FY 2014 REQUEST FOR FEDERAL FUNDS

The Nation's attention continues to focus on reducing the federal deficit. Therefore, the UPBC carefully considered whether recommending a request for additional federal funds at this time is warranted. The Committee focused its discussion on two candidates it considers critical to fulfilling the CCSP and the GSP. First, the residence hall situation at the Clerc Center represents not only an undesirable situation for high school boys residing in a university residence hall, but, also a loss of beds available for university students. Second, our student body has experienced significant changes as exemplified by the number of deaf and hard-of-hearing students now attending Gallaudet as first-time signers. This type of change requires ever-expanding access services to provide appropriate support for all Gallaudet students.

MSSD Residence Hall
The University, with the support of the U.S. Department of Education, determined that it was in the best interest of the Clerc Center students to demolish all residence halls except one. Consequently, the Clerc Center continues to operate with just one residence hall that houses high school girls, forcing the boys to reside in a university residence hall. This reduces the number of available residence hall beds for university students by 174 and has high school students living in proximity to university students. The construction of the MSSD-located residence hall must be completed so that our high school boys reside in a facility designed and specifically located for high school students. Gallaudet requested these additional funds in its FY 2013 request to the U.S. Department of Education. President Obama's budget recommendation for Gallaudet does not include the necessary $7 million needed to complete the project. Therefore, the UPBC recommends re-submitting the request in FY 2014 if it is not approved for FY 2013 by Congress.

Recommendation
The UPBC recommends that the University continue on-going activities to obtain the remaining $7 million in federal funds already requested for completion of the MSSD residence hall.

Communication Access
The demand for communication access services continues to increase. The increase is attributed to the changing student body, the real-time captioning services in the classroom, and growth in internships and externships that account for approximately half of the direct student services costs. This item was submitted to the U.S. Department of Education for federal funding in FY 2011 and in FY 2012.

Recommendation
The UPBC recommends that the University continue on-going activities to obtain the $3 million already requested to support increased costs created by growing demand for communication access services.

CONSOLIDATED LIST OF RECOMMENDATIONS

The UPBC recommends—

1. *Establishing the operating budget for FY 2013 at $171.7 million. This is $1.7 million or almost one percent less than the FY 2012 budget. Per the Board of Trustees', and the administration's direction, the operating budget was prepared to yield an operating surplus. The planned surplus for FY 2013 is recommended as $2 million or 1.2 percent.*

2. *The gross tuition and fees budget of $23 million based on the 7 percent board-approved tuition increase that will take affect this Fall 2012 and the total institutional enrollment of 1940.*

3. *The budget for federal appropriations for operations of $117.5 million, an amount that reflects the recent climate in the federal government and recognizes the recent rescissions that reduced Gallaudet's appropriation in FY 2011 and FY 2012.*

4. *A 32 percent discount rate (institutional aid), and that the university continue evaluating the overall institutional aid strategy to determine if funds are being applied in the most strategic manner to optimize enrollment.*

5. *A tuition increase in the range of 6 to 8 percent in Fall 2013.*

6. *Reviewing other fees such as unit, application, admission, registration, and course fees in time to inform the FY 2014 budget formulation.*

7. *Reviewing the purpose and function of the Regional Centers to determine if they may provide an additional tuition revenue stream in future years.*

8. *The auxiliary enterprise revenue budget of $21.4 million, and examining the possibility of charging variable rates for different dormitories and requiring some categories of students to live on campus.*

9. *Monitoring the non-student related auxiliary enterprise units with an expectation that the margin continually increases over the next five years.*

10. *The FY 2013 grants and contracts budget of $6 million.*

11. *The investment income budget of $6.2 million based on the three-year rolling average calculation and suspended payout for underwater endowment accounts.*

12. *The FY 2013 contributions budget of $3 million, the same level as FY 2012, recognizing that this reflects only those gifts or partial gifts that will be readily available for use each year.*

13. *The University FY 2013 budget for revenue from other sources of $2 million, the same level as FY 2012.*

14. *Gallaudet's operating expense budget for FY 2013 be established at $171.7 million, including a contingency fund/planned surplus of $2 million. This represents a one percent decrease in the operating expense budget. This operating budget includes UPBC's recommendations to—*

    - *Increase the contingency/planned surplus by $500 thousand per year until it is greater than or equal to 2 percent of the University's total operating revenues beginning with FY 2013;*
    - *Reduce the centralized payroll through careful consideration of filling each vacated position, specifically reducing the number of authorized positions by at least 26 (i.e., 2.6 percent of current authorized positions);*
    - *Identify an additional $1.25 million through reductions to non-centralized non-payroll expense budget, excluding utilities, depreciation, and debt service;*

- *Reduce the utility budget by $1.5 million to reflect current agreed upon rates and forecasted consumption;*
- *Fund depreciation at $13.1 million, an increase of $2.8 million;*
- *Fund the new expense category of debt service at the required rate of $2.064 million;*
- *Recognize the vital role of employees' in achieving the University's mission by acknowledging their continued commitment and contributions, either through an increase to their base pay based on meritorious performance and that a portion of the funds set aside for employees pay be allocated to improving the competitiveness of Clerc Center teachers' pay.*

15. *The FY 2013 payroll budget of $106.9 million comprised of 964 positions, 26 less than the current level, and $1 million to acknowledge employees continued commitment and contributions through an increase to employees' base pay. The Committee recommends that the pay increase be based on meritorious performance and that a portion of the $1 million be allocated to improve the competitiveness of Clerc Center teachers' pay.*

16. *The following strategies for the administration to consider in achieving the reduction in the number of positions—*

    - *Review the status of PPTF and APSRC recommendations;*
    - *Require each Division to prepare a staffing plan at the organization/unit level; and*
    - *Review vacancies as they become available to determine the cost/benefit and viability of outsourcing some functions.*

17. *Reducing the utility budget to match current consumption and current rates or $6.9 million. The Committee acknowledges that if the costs should rise, the University may be required to review allocations in other expense categories to make adjustments.*

18. *Funding depreciation at $13.1 million, and that the budgeted amount become the base budget for its capital budget, primarily intended for institutional renewal.*

19. *Funding debt service at $2.064 million.*

20. *An FY 2013 budget of $40,736 million for other expenses. Other expenses include transportation and travel, general office expenses, consultants and advisors, professional fees, professional development, printing and publishing, Bookstore and Press 'cost-of-goods-sold,' furniture and equipment, access services. This amount already reflects the necessary $1.25 million reduction. The Committee recommends that the specific areas to be reduced be determined based on the comprehensive assessment of the progress on the GSP and CCSP to be completed in the near term, and that reductions must be consistent with the recommendations made in the Program Prioritization Task Force and Administrative Program Services and Review Committee reports.*

21. *Using the amount equal to the estimated FY 2013 depreciation expense of $13.1 million as the base capital improvement budget, including an allocation of $2.7 million for deferred maintenance, $1.5 million for annual allocation categories, and up to the remaining $8.9 million for construction/major renovation. This includes allocating $500 thousand for residence hall furniture, $500 thousand for athletics capital improvements, and $500 thousand for a construction contingency fund. The remaining $8.9 million will remain available for major capital improvement and/or renovation projects to be allocated once the facilities master plan is approved.*

22. *The University continue activities to obtain the remaining $7 million in federal funds already requested, and needed for completion of the MSSD residence hall.*

23. *The University continue activities to obtain $3 million in federal funds as requested in FY 2012 to support increased costs created by growing demand for communication access services.*

APPENDIX A

University Planning and Budget Committee Charge

The UPBC will serve in an advisory role with respect to Gallaudet's planning, resource allocation, and assessment, and will monitor and facilitate these activities. The committee will advise the President on the implementation and evaluation of the university's budget, strategic plans, and institutional assessment.

The committee's responsibilities include:

1. Facilitating evaluation of progress toward achievement of the institution's strategic initiatives and the institution's academic achievements.
2. Facilitating the university's annual budget development process, including proposing the annual operating and capital budgets, and making recommendations for federal appropriation, salary treatment, and tuition.
3. Facilitating revisions to the GSP and facilitating discussions on the relationship between the GSP and the CCSP in the following areas:
   a. Assuring that the university's budget is aligned with the GSP and the CCSP.
   b. Developing guidelines for preparing and prioritizing action plans for the implementation of strategic plans at all levels (e.g., institutional and unit levels); reviewing action plans within the context of strategic resource allocation; providing advice to the President and the President's Cabinet; and establishing reporting mechanisms.
   c. Facilitating the monitoring of strategic goal outcome data including:
      I. Setting a reporting schedule.
      II. Verifying data.
      III. Analyzing data and action plans in order to make recommendations for continuous improvement on campus.
      IV. Communicating the results of institutional effectiveness efforts to appropriate campus and external stakeholders to promote accountability and transparency.
4. Reviewing results of university-level learning assessment updates and program reviews that are conducted on a regularly scheduled basis, and making recommendations on strategies and mechanisms to continually improve the quality of the institution;
5. Assuring that Gallaudet meets all Middle States Commission on Higher Education and U.S. Department of Education expectations for planning, resource allocation, and assessment.

Principles

- Capitalize on what we learned through PPTF and APSRC
- Build capacity (knowledge, sills, and dispositions) for integrated planning, resource allocation, and assessment in the GU community
- Broaden GU community participation
- Promote ownership in strategic resource allocation decisions

Managerial and Fiscal Accountability

Gallaudet employs a number of strategies to assure accountability in all of its activities. The following paragraphs provide a brief overview of some of the strategies employed by the University.

A key factor in providing for accountability is the integrity and ethical values maintained and demonstrated by management and staff. Gallaudet University's administration maintains an environment that reflects a positive and supportive attitude towards internal control and conscientious management. Assuring a strong foundation for internal controls are the University's Administration and Operations Manual (A&O Manual) and the University Faculty By-laws and Guidelines. These documents, although not exclusively, help to provide assurance that the University complies with laws and regulations, maintains reliable financial reporting, and is effective and efficient. Among other things, the A&O Manual—

- Assigns responsibility for budget management and control to administrative officers, and
- Specifies restrictions imposed under the Education of the Deaf Act of the use of appropriated funds.

Additionally, the administration routinely monitors performance through such activities as standing meetings, standard and periodic reports, and supervision. The GSP and the CCSP provide key mechanisms for managerial and fiscal accountability. Periodic reports to the administration and to the Board on progress towards GSP and CCSP strategic goals and objectives represent a means for the administration to assure that resources are being deployed to fulfill strategic goals. Finally, the annual independent audit of the University's financial statement provides stakeholders with reasonable assurance that the University's financial statements fairly present its financial position, conform with accounting principles, and are free of material misstatement.

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